

The Social Significance of Death Duties

E. Rignall & J. C. Rignall



**SOUTH
BRIDGE**

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R. Taxation

RIGNANO

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THE
SOCIAL SIGNIFICANCE
OF DEATH DUTIES



Rignano
THE

SOCIAL SIGNIFICANCE OF DEATH DUTIES

*adapted from Dr. Shultz's translation from the
Italian of Eugenio Rignano by*

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INTRODUCTION

My friend, Professor Seligman, has recently prefaced Dr. Shultz's translation of Professor Rignano's work for American readers. I should like briefly to set forth why I count it an obligation to introduce that work to a British public, which, so far, only knows Professor Rignano through the references of other writers. It is in order that he may speak to them for himself, and so that his ideas may have a fair hearing and, if rejected, be rejected only after mature and proper consideration free from prejudice and misunderstanding. Those ideas are, at any rate, sufficiently novel, and, if acceptable, sufficiently important, to warrant a deliberate judgment. Moreover, it is by no means to be thought that what may be good in one country is necessarily satisfactory in another with different traditions and constitution. Again, it is by collective convergence of thought from a number of different viewpoints, rather than by the wishes or inclinations of a single class, that such a judgment can be formed.

Death Duties on their present principles in this country have now existed for thirty years, but the severe progression in their rates is of more recent

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establishment. In each instance fiscal needs, rather than any conscious political desire to interfere with liberty of bequest, or to redistribute wealth, have been the prime factors towards change. It is doubtless possible on general grounds of equity and justice in taxation alone to justify a considerable degree of progression, but it is by no means certain that the general assumption that the effects are leading ultimately to the greatest common advantage is going to be made good. The saving of capital resources for increased production, with a growing population, is a most vital element in our social economy—doubtless at its point of maximum benefit if the saving can be made widespread and general, but by no means to be gainsaid or dispensed with even if the saving should be “registered” in the name of but a few. The nineteenth century acquiescence in the personal accumulation of extreme riches on the tacit condition that the owner did not himself enjoy, by consumption, the interest or produce, but “turned it in” again into the productive field, has been eloquently described by Mr. Keynes as an essentially unstable situation. But the process, whether right or wrong, did at least raise the national productivity and standard of life of the whole community in unexampled fashion. In so far as high progression in taxation interferes with the old rate of capital accumulation, it prompts two very critical questions in the general social interest:—

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- (a) Are those sections of the population whose saving capacity is not impaired by high taxation, *i.e.*, in whose favour wealth is being redistributed, taking the place (as savers) of those who are being heavily taxed and, by a multiplicity of small savings, providing the requisite capital accumulation ?
- (b) Has the *incentive* to saving, owing to heavy Death Duties, on the part of those with considerable incomes, been impaired ?

If the answer to (a) is found to be negative, and to (b) affirmative, we may well conclude that the future accumulation of capital is in serious jeopardy. Statistical indications in the first case are scanty, but as far as they go, they lead to the view that, important though the savings of the lower classes may be, they are not adequate to "fill the gap." As regards the second point, either the incentive to save is seriously affected by Death Duties, or those duties are actually avoided by the distribution of wealth during lifetime. We have the dilemma of either a social or a fiscal evil.

Professor Seligman says : "The new feature in Professor Rignano's ingenious suggestion is that the graduated principle of taxation, which has hitherto been applied only to the amount of the inheritance and to the degree of relationship, should now be extended, in the interests of society as a whole, to the time or the period when the property

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was acquired. Professor Rignano, in short, contends that while all the property acquired by an individual during his life and by his own exertions should be virtually free from taxation, that part of the estate which he has inherited from someone else should be subject to heavy taxation. By increasing the rate according to the degree or time of acquisition, the result would be an automatic turning over to the Government of a continually increasing fund of capital.

“The author endeavours to attenuate the radical implications in his suggestion by emphasizing the fact that in his opinion this will strengthen rather than weaken the incentive to work, to save, and to accumulate.”

Professor Rignano's work will, it seems to me, appeal to three different classes of thinkers. First, it is of interest to those who regard death duty taxation as a valuable part of our fiscal system, but who would like to be able to raise an undiminished sum on principles which will have less harmful economic influences either upon savings or in the direction of fiscal avoidance. For example, Professor Pigou says (*Economics of Welfare*, p. 676) : “If the various technical difficulties that present themselves could be adequately dealt with, it should be possible, by the Rignano plan or some variant of it, to raise a substantial revenue from rich persons without restricting savings even so much as they are restricted

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by the existing system—indeed there is much force in the contention that his plan would actually lead to an increase of saving.” Secondly, it will appeal to those who regard Death Duty taxation in the ordinary course as “eating into the national capital”—an attitude which, as I have shown elsewhere, may easily degenerate into pure fallacy—but who would willingly raise as much as possible by inheritance taxes *for the redemption of debt*. Third, it is directed to those who would use the fiscal engine for purposes *beyond* the fisc, and avowedly for socialistic aims, either to redistribute individual wealth, or to accumulate State wealth.

It is not necessary for one to share Professor Rignano’s ambitions under the third head—indeed one may be quite hostile to them—in order to assess the value of his principal idea for the purposes of the first two objects above mentioned. One may be entirely out of sympathy with his desire to secure progressive socialization of wealth, and yet look, in the milder application of his principle, for some amelioration of the economic drawbacks of the present taxation system. For example, Professor Henry Clay illustrates the principle (*Property and Inheritance*, p. 33) by a scale of 20 per cent. at the first transmission, 40 per cent. at the second ; 60 per cent at the third ; 80 per cent. at the fourth, and 100 per cent. at the fifth. In other words, the fate of an estate built up at the present time to £2,000,000,

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and being left every thirty years under existing rates and under such a scale as Clay suggests, would be respectively as follows (ignoring legacy and succession duties) :—

AMOUNT OF ESTATE LEFT AFTER TRANSMISSION IN THE YEARS :

	1940.	1970.	2000.	2030.	2060.
Existing method and scale.	1,200,000	816,000	587,520	434,775	330,429
Rate per cent.	40	32	28	26	24
Rignano method.	1,600,000	960,000	384,000	76,800	<i>nil.</i>

It will be seen that the Rignano scale, while much less severe to begin with, would in seventy-five years' time leave less than the existing scale, and in 135 years' time would extinguish the present £2,000,000 estate, while our existing system would still leave £330,000 of it to the fifth successive inheritor.

In considering his ideas we have to answer three questions :—

- (1) Are they *primâ facie* “unnatural”?
- (2) Are they against fiscal or economic principles?
- (3) Are they administratively practicable?

Is complete freedom of bequest a natural right? Is Death Duty taxation an interference with that right?

Although some have attributed the growth of Death Duty taxation to the spread of democratic ideas, it is at least arguable that this apparent con-

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nection may not be due to a conscious democratic mastery of the political theory of inheritance, so much as to the force of example in the search for new sources of revenue to meet an increasing growth of expenditure which depends not on the form of government so much as on the growing economic complexity of the modern State. Or at any rate we may say that the need for money has acted as an incentive in the search for an appropriate political philosophy. Nevertheless, there are striking instances where the observation of the results of the principle of inheritance in the modern State have prompted the idea of State restriction by the engine of finance and where the raising of revenue has not been the immediate objective. Thus three great Americans in a short period of time unite on this line of thought ; Taft regarding it as one of the ends of government to make the State share largely in the accumulations it has helped to bring into existence ; Roosevelt being desirous of making it impossible for an enormous fortune to be handed on to a single individual ; and Carnegie finding it difficult to prescribe a limit to the extent to which the State should go in sharing a rich estate.

When taxation is levied upon *things*, in a general belief in diffusion of incidence, quite different considerations arise as compared with its imposition if it is regarded as falling upon persons. The more advanced fiscal conception that, however much taxes

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may *appear* to be levied on things, they are actually paid by persons, leads to more elaborate ideas in taxation. For the thing or the property, the tax *in rem*, can clearly not be complex in character. But the individual is so various in his circumstances and in his relation to the property, that there is room for a wide variety of rates and scales. When property passes at death one may think chiefly of the personal circumstances of the deceased, and the amount of wealth which he is privileged by the State to will by personal direction, that personal direction being protected and backed by the whole force of the State's law and order. One can look *from* whom it goes, or one can look *to* whom it goes. The personal circumstances of the recipient who benefits by the bequest, whether he be rich or poor, and whether the amount coming to him be large or small—these are factors which may serve as variants in a scheme of taxation. Or again one may consider the *distance* which the bequest has to cover, measured in the nearness or remoteness of kinship. It may seem a less remarkable service for the State to perform when it protects the passage of a man's wealth to his widow or his sons, than when it secures the more artificial rights of a distant relative or complete stranger. It may seem again that the element of expectation on the part of a distant relative should be so much less, his surprise so much more, than that of the immediate family, that the State could, without hardship, call

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upon the former for a more substantial sacrifice. In fact, it will be found that schemes of inheritance taxation in different countries are based on one or other of these principles, and frequently blend two of them. The factors which determine the basis have sometimes been mere historical accidents, but more often the determining causes are to be found in the prevalent ideas either on the principles of taxation or the political theory of inheritance.

It is instinctive for the people of any one country to look upon their ideas concerning inheritance as the normal or natural ones. If indeed they are conscious that different ideas and practices prevail elsewhere, they regard them as abnormal, at any rate, as being so much less "natural" as to require justification. As a matter of fact, political ideas upon this subject are so varied as to show clearly that there is no one nation which is inherently right, either in the nature of things or by demonstration from political theory.

In the philosophical theory of property held by Locke, he regarded the English freedom of bequest as a natural right. But even in his time the right was limited, and the power to will lands had only recently been conferred by Statute. In intestacy then, as now, three different systems prevailed in England, for in addition to the general primogeniture, the principle of equal division (gavelkind) obtained in Kent, and in other places the custom of borough

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English gave the property to the youngest son. "Locke would probably have urged that these were modifications of the law of nature introduced by the State-made or civil law which derived its authority from the social contract. But it is not apparent how the contract, the obligation to keep which itself rests upon a principle of natural law, can override other laws of nature which are (according to Locke) as sacred and absolute as the law that contracts shall be kept" (Rashdall, *Property*, p. 45). One branch of the theory of property conflicts with another. "The rights of property supposed to be derived from a man's natural right to the fruits of his labour involve the negation of that right in the non-inheritance of property." The same writer concludes : "I am myself disposed to think that the institution of property cannot bring with it its full advantages, economic, moral, and social, without *some* form of capitalization and *some* rights of inheritance, however much these rights may be curtailed by the State."

Dr. Dalton has very well said : "Most Englishmen who have not studied comparative law, will think it natural that the ownership of their property after their death should be governed by their Last Will and Testament. Most Frenchmen, in like case, will think it natural that the operation of their will should be subject to the law of the legitime. But many Indians, far from thinking the disposition

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of property by will to be natural, will find great difficulty in understanding what the mere idea of a will signifies and implies. Indeed, Maine has pointed out that to the vast majority of mankind throughout recorded history the idea would be quite incomprehensible." The right to direct the ownership and use of property after a man's death is not found in early communities, nor could it be expected where ownership is in common by the family or by the tribe. Its origin lay not so much, however, in full individual ownership during life as in religious belief. Maitland says that as late as the sixteenth century the right of bequest was the power to purchase the repose of their souls. Intestacy was an ecclesiastical rather than a political affair. In England the right is by no means absolute, for a man may not direct that his property shall be wasted, nor can he direct a perpetual accumulation, nor a succession of ownerships after him beyond a period of twenty-one years after the death of persons alive at his own death. But his right of disposing of his property extends to practically the whole of it, and with insignificant limits he can ignore all those who appear to have most claim upon him. The British speaking peoples, in the main, have similar ideas, whether in the Dominions or in most of the United States. But in continental countries the practice, of course, is quite different. Close relatives have definite rights. Even in the United States a widow

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is generally entitled to one-third of the personal property and a life interest in a third of the real property. In Italy one-half of the property follows a settled rule independent of the desires of the deceased owner, and in France the power of free disposition is confined to a fraction which diminishes with the number of children, *i.e.*, if there are eight children, the right of bequest extends only to one-ninth of the whole. In Russia, inheritance is abolished, the property vesting in the State, subject to certain provisions for supporting dependents at the direction of local tribunals.

Nor is there any fixity of idea in point of time in any one country. France formerly had greater freedom which became curtailed and narrowed down by the Code Napoleon to its present form, and the breadth of practice in Quebec is derived from the earlier form. Britain, on the other hand, had formerly much narrower limits, for until recent times children had fixed rights, and the limitations on freedom of disposition (which still prevail in Scotland) varied in different parts of the country. In York in 1692 the rights were widened to prevent the widow getting too much and to benefit younger children, but in fact they allowed the latter to be ignored altogether. Legal authorities abound in illustrations which show that there is no fundamental or "natural" idea on inheritance.

It is obvious that where a man dies without

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expressing any wish as to the disposal of his property, the rules made by the State may vary very widely, although the common principle is a division between the immediate members of the family, with such special exceptions as the British law of primogeniture.

The economic or social effects of these different practices are clearly different. The compulsory divisions along the lines of the French system are generally supposed to make for a wide diffusion of wealth. It may make for discontinuity in control of production and a lessened production, except so far as this is offset by the advantages of more even distribution. Complete freedom leads, of course, to aggregation of fortunes. One cannot be dogmatic in the abstract, as to the greater diffusive tendencies of the principle of legitim.¹

The right of disposition is doubtless a powerful incentive to effort and capital accumulation. Economists have speculated on these influences, and Sedgwick surmised that while limitation of rights would make the testator save less and work less, complete freedom to him would tend to make his inheritors save and work less instead. But the claims of individual liberty as against State rights can hardly be put so high as to say that the State may not so modify the individual's rights by rule so as to give a nearer approach to maximum social advantage. If such interference involves cutting out some of

¹ Vide Dalton, *Inequality of Incomes*.

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the more remote individual rights by diversion of part of the estate to itself, it is hardly to be regarded as an offence against the natural rights of man unless in so doing the State goes to such a length as to commit economic suicide by thwarting individual initiative, and drying up the springs of social action. Mill's proposal to limit the amount any one person could receive by inheritance might have gone far in this direction. Rignano himself has objected to Mill's proposal that it might make more idlers than complete freedom would do. Dr. Johnson said primogeniture was good because it made only one fool in a family.

The Principles of Death Duties.—Graduation of Death Duties is now well nigh universal in advanced communities, but there is considerable diversity in the results according to the principles upon which the schemes are based. There are four distinct principles :—

- (a) Graduation according to the total amount of the estate.
- (b) Graduation according to the amount of the *portion* of an estate left to each beneficiary.
- (c) Graduation according to the relative poverty or wealth of the recipient.
- (d) Graduation according to the nearness or remoteness of the relationship between the testator and the beneficiary.

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The British Estate Duty follows mainly the first principle, and a large estate is taxable at a very high rate, even though it may be divided into a thousand small portions and left to comparatively poor people.

But the legacy duty, much less onerous, embodies the second and fourth principles. Pitt in 1796 switched over from graduation by amount to graduation by consanguinity, and the latter is almost entirely the most dominant principle. In 1886 Randolph Churchill contemplated revising the Death Duties so as to rely on the second principle, and deal only with the amount of the bequest to a beneficiary.

These different principles find their several types of justification in different doctrines of incidence. Some people regard Death Duties as a kind of deferred income tax, so that any arguments for progressive taxation of incomes apply, with moderate directness, to such a deferred tax. The net fortune that the testator leaves would then be comparable with what he would have left had he been subject annually to a higher income tax. In so far as it is the practice of individuals to provide for the duty by annual payments of insurance (or by *additional* annual saving that could not otherwise have been made) then indeed the duty does assume this character. The simple character of the principle is, however, rather marred by the fact that the accumulation (or insured fund) itself becomes liable to tax, and so enhances the value of the estate, so that the

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principle involves in practice a tax upon a tax. In so far as the action of the testator in saving is not affected by the prospect of the inheritance tax, it may be said that the incidence is not consciously upon him. It is said, in consequence, that in such a case it must be upon the beneficiary who receives less than he would have done if there had been no tax. According to the principle of faculty or ability to pay, which is considered to increase progressively with the amount of an individual's resources, it is fair to impose a graduated scale on such inheritances. But to a son, an inheritance is an expectation, to a remote relation it is rather in the nature of a surprise or windfall, and windfalls are considered to possess a special "ability to pay."¹ Here we derive the idea of graduation by degree of consanguinity. Again the remote relationship gives far less prescriptive right to the fortune, and the boon conferred by the State is correspondingly greater. Whether we look at the "privilege" theory or the "special faculty" theory, graduation by consanguinity is intelligible.

As a supporting feature of the theory that the incidence is upon the testator may be taken the view so commonly expressed down to 1907 that the graduated death duties were required in order to round off our whole system—to supply a progressive element in the taxation of income, and to provide a differentiation in taxation between earned and un-

¹ Stamp, *Fundamental Principles of Taxation*.

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earned income. In general discussion the Death Duties were always called in aid to justify the existing scheme of income taxation.

But with the advent of a highly progressive scale, and differentiation against investment income, within the scheme of the income tax itself, this argument for the Death Duties as a "back tax" is rendered of little importance.

Death Duties applicable to the property as such have been justified on the *diffusion of wealth* theory. The distribution of wealth by the appropriation of accumulated wealth is said to require "no further justification seeing that such taxation provides not only a direct link in a chain towards effecting in an ordered and lawful manner that narrowing of the gulf between the very rich and the very poor which otherwise, perhaps, might only be bridged by political revolution, with all that that involves; but also a means by which the very rich are enabled to pay to the State, which has nurtured and protected them, some part of the great debt which they are alleged to owe but to be unable ever adequately to repay.¹ But this involves the whole question of the extent to which the State may legitimately go beyond necessary State expenditure in the direction of so-called "amelioration" of conditions, and begs the question that a more even distribution is actually in the long run an amelioration of social conditions.

¹ Soward and Willan, *Taxes on Capital*.

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Many economists consider the disintegrating effects of interference with the legitimate ambitions of the saver of capital far outweigh, even in a commercial sense, any immediate advantages of equalization.

The next principle called in aid has been the "cost of service." But this would lead to a progressively smaller proportion being charged upon the larger estates, and is, therefore, by practical application, out of court.

Pierson proposed to recognize both relationship and faculty by dividing the rates of tax into two parts, the first attributable to consanguinity and the second to "ability to pay" treated as an amplification of the income tax. Another theory: the *sequence of inheritance theory*, finds its origin in the teaching of Bentham, linking fiscal principles with the law of inheritance. He proposed to limit the power of disposition to distant relations, and to extend the law of escheat and thus throw larger portions of intestate estates into State ownership. Professor Seligman says it was but a step to the juster and more practicable scheme under which the State takes but a small part from property left to direct relations and an increasingly large sum from remote relations. The French carry the principle to the point of having heavier rates in the direct line, *i.e.*, grandchild or grandparent paying more than child or parent.

Professor Rignano adds to these several principles upon which progression may be based, progression

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by *distance of time* or *number of successions*. This may operate by itself, or in conjunction with the others. For example, a certain *scale* of rates applicable to certain amounts of fortune might be increased by x per cent. when the beneficiaries are of a second degree of relationship, and the resultant scale might be increased by y per cent. where the fortune is being left by a person who himself inherited it.

The third and perhaps the most vital aspect for consideration is *practicability*. This detailed treatment would lead me too far afield in an introduction. But I may at least outline the chief headings of such a consideration.

- (a) Changes in the value of money, or rate of interest, where the same real fortune may show a fictitious increase or decrease for taxation purposes.
- (b) The succession of life interests.
- (c) Changes in valuations of variables, etc., such as mines depending upon an estimate of length of life.
- (d) The impossibility of stereotyping the forms of wealth received as inheritance, and of holding to original valuations where the forms into which exchange has been made exhibit changes.
- (e) Rapid successions horizontally along the same generations, *i.e.*, from brother to brother.
- (f) Government life annuities to successors.

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These questions are too technical for a general treatise, but upon their successful solution rests the practicability of the “ Rignano ” scheme in British conditions.

This present work will, at any rate, serve to open or ventilate the subject, even if it can carry it to no final conclusion.

J. C. STAMP.

PART I

A GENERAL CONCEPT OF THE PROJECT

CHAPTER I

Toward a Greater Economic Democratization

BEYOND question, no war of the past can boast of results more revolutionary than the struggle from which the world has so recently emerged. This, at least, will be conceded by the defenders of most widely divergent opinions. To understand this and to comprehend its significance, we have to search into the origins of the war and into the manner of its development. It made its appearance as the direct consequence of Teuton imperialism, itself a result of Germany's great economic progress, so that by many the responsibility for the war has been laid upon the capitalistic organization of society. It was, more than any other, a war of nations, in that the entire population of each belligerent country took part. By its duration, by its extent, by the total of suffering and misery which followed in its train, it represented the greatest effort, the greatest sacrifice, which humanity has ever been called upon to make.

Moreover, its very duration, the necessity of inciting the highest efforts of soldiers and workers, made

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it necessary for all of the belligerent Governments constantly to appeal for social solidarity, daily to recall to the masses their supreme importance in the life of the social organism, and to emphasize at the same time the idealistic aims for whose sake the struggle was being waged—liberty and justice for all peoples and all classes. As a consequence, the disinherited classes were allowed a fleeting view of their recompense after the victory. No revolutionary propaganda could ever have intensified and broadened the class consciousness of the labouring masses as did this war, this tragedy of blind nationalistic imperialism.

Be it added, finally, that the capitalistic system, which before the war had begun to show indications of strain, underwent a convulsion too violent in proportion to its internal resistance to permit the belief that it can return to its ante-bellum status without a profound transformation.

Since the war there has been revolutionary unrest everywhere, not only in the vanquished countries, but in England, in France, in Italy and, thanks to the contagion, in the neutral countries also. Faced with this unrest, with this delicate situation which the war has imposed upon the capitalist *régime*, is it wise for the middle classes to continue to defend what they consider their class rights and thus to run the risk of a violent revolution, which would be for the world and for all social classes a catas-

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trophe a hundred times more disastrous than the war? Would it not be better to anticipate, more or less, the principal *desiderata* of the working classes? Such a course of action would smooth the way for a pacific and legal transformation of the economic system—radical though gradual—which would tend to modify the distributive system in the direction of greater justice without causing violent and disastrous crises in production, and which would even augment its output. Assuredly this is a far-sighted and elevated political programme on which all democratic parties can and should agree, on which the most progressive wing of the Liberals and Radicals as well as reformist and “administration” Socialists could unite.

Economists, practical politicians and the press vie with each other in pointing out the deplorable conditions in which economic society finds itself after the strain of the war efforts. The Dawes report has shown that it will be impossible for the Allies to obtain an indemnity from their enemy which will be sufficient, quite apart from reparations, to cover their war debts; in the United States, the Secretary to the Treasury has estimated that the payment of the national indebtedness will be a matter of thirty-five years under the most favourable circumstances.

Now, though it be true that the capitalists who loaned their wealth to the nation during the war undoubtedly contributed to victory (and it would be,

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at any rate, impossible and unjust to make a distinction between their claims and those of capitalists who preferred other forms of investment), it is none the less true that up to the present the Government bonds which they purchased represent only an extensive lien on the annual social product ; the capital represented by these bonds no longer exists, and thus does not aid in the slightest degree the further production of wealth. The fortunes resultant from the war, immense as they are, may be justified up to a certain point by the necessity which every belligerent country faced of stimulating national production to the utmost, and for which the attraction of a normal profit certainly would not have sufficed. Nevertheless, the new gigantic fortunes produced by the war, quite apart from their pernicious psychological reaction upon the working classes, represent formidable claims on all kinds of goods able to satisfy the appetite for luxuries. For that very reason, they possess the power to divert economic production, even more than in the past, to the creation of articles of luxury, less useful or even entirely useless—a situation to be condemned now more than ever.

To-day, after the immense destruction of capital and wealth caused by the war, it is most urgent that we set ourselves to labour anew—a labour eager, ardent and highly productive,—that we begin once more to accumulate capital wealth as rapidly as

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possible. Instead of this, we behold the labouring classes demanding and everywhere obtaining the reduction of their working period to the eight-hour day and the English week, filling their jobs with increasing reluctance, and determined not to aid henceforth in swelling the profits of the capitalist. The new and greater inequality in the distribution of wealth renders it more difficult for the impoverished middle classes to accomplish their traditional function of saving—the *rôle* assigned to them in the social economy. At the same time it removes from the owners of enormous fortunes, precisely because these are so great, all incentive to practise further economies. In addition to all else, there are new taxes and new duties of all kinds, which constitute still farther embarrassment for production as well as for saving.

Certain Socialistic projects in Germany and England would meet this crisis, which is at once economic, social and political, by the nationalization of various industries and of certain elements of production—the land, the mines, the railroads, etc. Thereby it is hoped that a new *régime* will be inaugurated which will satisfy the aspirations of the labouring classes. But the capital necessary to indemnify the present owners will only have the effect of still further increasing the public debt. Such nationalization will solve practically nothing. Once these instruments of production are taken

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from their present owners, the nation will have to levy upon the annual social income by means of taxes practically what is levied to-day under the form of dividends in order to pay the interest on these new loans.

But !—the happy effects that are desired would be produced *if these properties could pass gradually into the possession of the nation without the necessity of indemnifying anyone*. I say *gradually*, for it is hardly necessary to dilate upon the enormous economic upheaval—disastrous for all social classes and especially for the labouring classes—which would occur if the transfer occurred too rapidly after the manner of a violent expropriation *à la bolchéviste*.

One cannot deny that certain capital goods, certain instruments of production, *once created by individual initiative*, can be *administered* without difficulty by public bodies—the nation, the State or the municipality—even if the activity of these agencies be not so keen as individual enterprise. These properties consist in general of all goods capable of *lease*, such as houses, lands, mines, large factories, and so forth (as to the Treasury bonds, their administration, when nationalized, would consist in . . . destroying them). At the same time, one cannot deny the sound value of the principle of the school of classical economists which asserted that collective production, directed by the State—

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that is to say, managed by bureaucrats according to bureaucratic principles—would be disastrous and that, for this reason, economic production must be left to unhampered individual initiative, more active, more keen, and infinitely more effective than the others, thanks to the spur of personal interest which prods it.

Thus it would appear that the solution of the problem ought to be sought somewhat as follows : in leaving the production of commodities and the accumulation of new capital to individual initiative—yes, in seeking to augment the will to labour and the desire to hoard even more than is the case to-day and in giving the actual possibility of saving to an ever greater number of individuals. At the same time, however, we shall find a way to enable certain properties or instruments of production—those most suitable for public management—to pass gradually, by a steady and automatic process, into the possession of the nation without the necessity of recourse to violent revolutionary expropriation on the one hand, or to a system of compensation on the other.

On every hand it is said that a new fiscal system has become imperative to make it possible to surmount the very grave difficulties which the war has forced upon the economic life of all the belligerent countries. Such a system is yet to show itself above the horizon. On the other hand, it

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is belittling the gravity of this economic and social crisis which is actually forcing the capitalist *régime* to battle for its very existence, to believe that simple financial measures will prove sufficient to meet it.

Many years ago, in my study *D'un socialisme en harmonie avec la doctrine économique libérale*,¹ I sought to discover—as the title indicates—if there were any way to reconcile, theoretically at least, certain unassailable truths of orthodox economic doctrine with the basic criticism, no less just in my opinion, which Socialism has levelled and still levels against the capitalist *régime* relative to justice and social welfare. If I permit myself to restate here my earlier conclusions, it is because the extreme gravity of the crisis which menaces us and the urgent necessity of finding remedies have led me to re-examine those conclusions in order to determine whether they are not capable of transference from the domain of theory to that of practical application.

Bentham and Stuart Mill believed that the justification of all human institutions, and consequently of the very right of property, should be sought exclusively in their social utility. If we accept this axiom, the question presents itself whether greater

¹ Italian edition, Turin (Bocca Frères), 1901; French edition, Paris (Giard et Brière), 1904. A brief summary of that work, in the form of a propagandist pamphlet and under the title *La question de l'héritage*, appeared in a French edition, Paris (Société de librairie et d'édition), 1905; and in a German edition with preface by Edouard Bernstein, Berlin (Wiegand), 1907 and 1909.

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social justice might not be attained by a modification of property rights so as to affect the privilege of bequest and inheritance and which, while stimulating labour and thrift to the utmost, would limit property rights to the period *strictly necessary and sufficient* to guarantee this maximum of interest in favour of labour and saving. Thereafter the accumulated capital and wealth would pass into the possession of the nation in much the same fashion as patents are allowed to remain valid no longer than is necessary to encourage the technician to new inventions, after which the original invention becomes public property.

To this end it will be expedient first of all to consider the levies which the nation makes upon inheritances no longer as *taxes*, but as *shares in the estate of the deceased devolving upon the nation*. Secondly an organization must be imposed upon these levies that will assure nationalization as rapidly as is deemed opportune, without thereby weakening the motive for saving, but rather *stimulating it even more than the unconditioned right of bequest and inheritance does to-day*.

Up to the present, the principle of graduation has been applied to Death Duties according to two criteria—the size of the estate, and the degree of relationship of the beneficiaries. But there is a third criterion which would admit of graduated rates, and this is the *relative age*, if one may name

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it thus, of the different portions of the estate left by the deceased—or more exactly, the *number of transfers* in the way of succession and donation which the different portions of the estate have undergone before coming into the possession of the deceased. By the application of this criterion of *progression in time*, the right of the testator would vary with the different increments of his estate. Over the wealth which he had himself created or saved he would have complete or almost complete control ; his rights would be more restricted over the wealth which he had inherited directly, and would grow proportionately less according as the original accumulation was more remote by reason of repeated transfers. Naturally, this subdivision of the estate into several parts on the basis of the different number of transfers each of them had undergone could only be made *quantitatively*, that is by their valuation in monetary terms, each share of the estate, were it created or inherited by the deceased, being capable of assuming the most varied forms of investment.

Once the estate of the testator was thus quantitatively divided, the nation would not levy on the portion due to his labour and thrift any higher duties than it imposes to-day. On the portion which the deceased inherited directly from his father, the nation would make a much heavier levy, say 50 per cent. On the portion which came to him from

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his grandfather through the medium of his father, there would be laid a very heavy tax, possibly 100 per cent. Such a graduation of rates would obviate a classification of any estate into more than three divisions, as nothing would be capable of inheritance from beyond the third generation.

These high assessments would not begin until the death of the present possessors of wealth, and would be levied on only a portion of their estates. Moreover, quite apart from the immense benefits which this reform would assure to the national finances in a not-too-distant future, a part of these benefits could be *anticipated* by *discounting* at present the reform itself. This would permit the immediate realization of all those social reforms which should be no longer delayed, and would make possible a great diminution in new taxes, especially in those which are destined to assure the payment of the interest on the war loans.

There is no need to waste many words in pointing out how much more effectively this reform would stimulate saving than the present unconditional right of bequest. In fact, as regards one's own children, every sum saved by the heir of a given estate would come to have, in his eyes, *a much greater value, even three or four times greater, than the sum he had himself inherited*. Whereas at present the beneficiary of a large fortune has little inducement to add anything to the inherited estate ; as

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this estate was more than sufficient for himself, he considers that it will be the same for his children.

The nation, co-heir to the extent of 50 per cent. where the estate had already undergone one transfer by way of succession or donation, and to the extent of 100 per cent. where the property had experienced two such transfers, would take the part which had devolved upon it *in kind*, like the other heirs—lands, buildings, securities, bonds, and stocks, etc. On the one hand, the amortization of the public debt would free the nation little by little from an enormous burden of interest charges ; the renting out, on the other hand, of the lands, dwellings and other properties gradually nationalized (the administration of which could be confided to the respective States and municipalities, or even to the trust companies which to-day administer private fortunes, if expedient) would make possible a gradual transformation from a fiscal system based on taxes to one founded exclusively on the revenues from these properties. The principle of the *Share-Holding State*, and that of *Share-Holding Trade-Unions* (wherein are found united the advantages of co-operative production and of large-scale individual enterprise) could be put into practice, little by little, as corporate shares and bonds also continued to pass into the possession of the nation.

These few indications suffice to give a brief idea of the economic organization of the future, and per-

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mit a glimpse of how this organization would be able to reconcile the advantages of an orthodox economic system—unhampered individual enterprise, free competition, etc.—with the exalted principles of justice proclaimed by Socialism. This is, at any rate, a reform which the grave economic, political and social crisis now racking the world renders worthy of attention. It is the duty of statesmen to determine what are the practical elements in this plan, and it is the duty of political parties to determine whether it may not find a place in their political programmes.

CHAPTER II

The Marxian Dilemma

THE Marxian doctrine that a collectivistic *régime* must necessarily arise from the blind play of the very forces of economic development was certainly effective in spreading the Socialist dogma among the working classes during its early days. The *régime* of social justice toward which the proletariat consciously or unconsciously aspired was represented not so much as a yearning of this or that dreamer which ran the risk, like so many others, of being relegated to the limbo of Utopias, but rather as the inevitable goal toward which society, willy-nilly, found itself dragged by the mechanical and inexorable evolution of economic processes. This doctrine had the effect of instilling, as much in propagandists as in the masses to whom it was addressed, an unshakable faith in the advent of the Socialist State—that faith which is the most important psychological element in making proselytes.

But this fatalistic doctrine, stripped of its revolutionary and dynamic trappings, contains a very dangerous germ of social conservatism and inertia. It postulates that the collectivist *régime* is to occur

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as the result of the inevitable mechanical evolution of the economic organization of capitalism leading to a steady concentration of all the means of production in the hands of a very limited number of capitalistic magnates in such a manner that, when at the opportune moment the collectivist fruit shall be completely ripe, it will be necessary only to peel off the delicate rind of individual property in order to inaugurate a collectivistic society. Consequently, it is expedient to secure the organization of the proletariat in order to have ready for the opportune moment the instrument that will tear off the capitalistic rind. But the conclusion is also inevitable that all action must await the favourable moment when the full limit of concentration in business enterprise as well as in the possession of wealth is simultaneously attained in every branch of economic production.

It is because of this fatalistic conception of economic development that Marx and his most doctrinaire disciples never stopped to criticize the legal structure of bourgeois society, much less to point out suitable modifications conducive to that nationalization of wealth to which the proletariat aspired. For doctrinaire Marxists, this legal constitution is one of those many social superstructures which, while determined and conditioned by the process of the material production of wealth, are at the same time incapable of reacting by any modi-

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fication whatsoever upon the economic process itself. Consequently they never launched any protest against the existing legal embodiment of property rights. They never devoted special attention to the privilege of unconditional bequest and inheritance which was instituted by the bourgeoisie precisely for the purpose of securing their possession of all the means of production and of all capital goods in general under the form of private property, so as to prevent the smallest portion of them from passing into collective possession. For Marx and Marxists, the legal problem was "a negligible matter" which it was not worth the trouble to bother about, because it could not modify in any manner or fashion the inexorable and unchangeable development of the economic process. Meanwhile, the organized army of the toiling masses gained in numbers and power relatively to the other social classes. But the concentration of business enterprise and of private property has not been realized after the schematic and uniform manner which Marxism had predicted and which would have been necessary to make possible the simple expropriation of a handful of super-magnates, thereby achieving the desired collectivist *régime* already potentially existent and prepared to function.

The World War proclaimed its ideology of right and justice for all peoples and classes and the emancipation of all the oppressed. To the masses

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who fought on the battle-lines and to the masses at home who produced the materials of war, the governing classes promised that victory would be accompanied with a greater social justice. In Europe, at least, this war with its sorrows, its torments, the deprivations that came in its train, further augmented by the profound discontent which still continues in this painful period wherein peace is so difficult to attain—this war drew an extraordinary number of new recruits into the army of Socialism, and everywhere engendered an unprecedented revolutionary ferment.

Behold the instrument of revolution, it is ready ! But how shall it proceed to that violent revolutionary expropriation which Marx assigned to it ? To-day the capitalists whom it is to expropriate, far from being a little handful, are legion ; and the delicate economic mechanism of production, still infinitely distant from that type of organization which would admit of easy displacement by a collectivist system, would find itself completely overturned and destroyed by such a revolution.

Thus, in every country of the world, the Socialist followers of Marx and his doctrinaire disciples find themselves left without guides, without any satisfactory criterion to indicate to them even the general direction of the path they are to follow. They are perplexed, bewildered and confused. Still the masses are incited to revolution and they are told that the

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solemn hour is about to strike ; but no one knows what the aim of the revolution should be nor what economic organization should be substituted for the one in force. While the more ardent spirits, in whose souls the confused echo of the apocalyptic passages of *Das Kapital* still vibrates, continue to preach a violent revolutionary expropriation, those Socialists who have a broader sense of responsibility and a clearer vision for the truth are wearing themselves out to put the party on guard against the immense disaster that such an act, such a sacrilege, would bring upon society in general, and particularly upon the working class, resulting as it would in the destruction of the economic mechanism for the production of wealth—above all in these moments when it is a question of life or death for society to obliterate the misery left by the terrible war.

Thus it is that the Socialist party in every country is wavering in uncertainty. Will it or will it not commit itself to this revolutionary act, the only one that Marx and his disciples have been able to suggest ? Inert in its inability to solve the agonizing dilemma, it wastes its great powers. Still imbued as it is with this fatalistic doctrine, according to which the course of economic development can never be altered by any parliamentary act, it has never truly asked itself—it has never been able to ask itself—the question whether the desired socialization of the instruments of production and of

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capital goods might not possibly be achieved in a gradual and continuous manner without in any way shattering the process of production, by an opportune modification of the right of private property. This *can* be accomplished by legislative action where the representatives of the labouring classes and the more democratic wings of the Liberal parties constitute a legislative majority or at least compose a *bloc* of sufficient importance to enable the aspiration of the masses for a system of greater justice to make its irresistible pressure felt.

Such is the alternative which faces the leaders of the Socialist party in every country. Either they must renounce the Marxist doctrine of the blind and inexorable evolution of economic development which cannot be affected by the intelligent acts of men and parties, even where exerted through the medium of legal institutions, and must consequently admit that the radical transformation of legal rights, and above all the right of private property, can lead truly and effectively to a modification of economic relations that will be favourable to the supreme aspirations of the working classes (and at the same time beneficial to society as a whole, because every exclusion of whatever form of parasitism and every advance toward a greater social justice cannot be other than auspicious), or they must continue to remain in their state of complete

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inaction and impotence. Such an attitude, however, must prove fatal for society as a whole, which is left helplessly suspended in a condition of chronic revolutionary ferment. It must be equally fatal for the party and the Socialist ideal by reason of the discredit and the distrust which this inaction and this impotence must bring upon them.

CHAPTER III

What Shall the Decision Be ?

Now, more than ever, it seems to me necessary that the Radical and Socialist leaders—at all events, those who are not Bolsheviks—must come to a decision. If they no longer have faith in the achievement and the utility of a nationalization of capital, they must once and for all put this idea to one side, think no more of it, speak no more of it. If they still believe in it, they must take the first steps, or at least they must show themselves willing to take the first steps toward nationalization. To continue to preach nationalization, to continue to propagate the idea among the masses that only by a socialization of this kind can the emancipation of the proletariat be realized, and then never to propose the least reform that would inaugurate this socialization—this is virtually placing the best of weapons in the hands at the same time of the bolshevistic extremists and of the reactionary elements of the bourgeoisie.

If, on the contrary, these leaders will insist at every legislative discussion of financial measures on

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presenting some financial project of their own of a decidedly Socialistic character, substantially modifying the actual rights of property, they will show at least that they are willing to take the first steps toward their greater programme, and they will immediately reinforce their position, chiefly in regard to the political elements expressing the will of the proletariat, which are the most important.

The sole way to achieve an effective and gradual nationalization of private capital without injuring the delicate mechanism of economic production is, in my opinion, for the nation to take a part of all inheritances, and to effect this levy in such a manner that the motives which induce individuals to labour and continually to accumulate new capital will not be weakened, but actually made stronger. Such a levy would be paid, especially for the larger estates, in kind and not in money. While not necessarily leading to State collectivism (which henceforth must be relegated to the realm of those Utopias which the economists have rightly decided would prove fatal to production) it would render possible a transformation from the present capitalistic *régime* to a liberal Socialistic system, which would combine the advantages of a more intense economic production with those of a more equitable distribution of wealth.

The difficulty, I know, is to pass from theory to practice, to embody reforms of such great import

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in law, to clothe them in the tight corset of legal terminology. But it does not appear impossible to me, and I shall briefly indicate the fundamental points on which the Socialist and Radical political groups can and should rest a study of this project.

1. The right of the nation to share in the estate left by the testator should be proclaimed. And this national share should be levied by the Government according to the following mode.

2. On the first portion of the estate left by the deceased, that which resulted from his own labour and thrift, measured by the difference between the value of the estate left by him and the total value of the various properties which had accrued to him during his lifetime by way of succession, gift or dowry, the nation would levy the same Death Duties that it does to-day. Of the second portion of this same estate, that which had come into the possession of the deceased through a single transfer from the original owner (the accumulator of this portion), the nation would claim, for example, 50 per cent. The remainder of the estate, which had undergone two transfers between the original owner (or first accumulator) and the deceased, would be claimed by the nation in its entirety. It is self-evident—and this has been recognized by the most orthodox economists, Italian, French, English and American—that such a system of levies would whet the appetite for labour and for the con-

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tinuous accumulation of new individual capital better than could any unconditioned testamentary or hereditary privileges. The new accumulated wealth in its turn would gradually and automatically become the property of the nation in much the same fashion as the water of the surrounding layers of earth which seeps into a well is periodically forced up by the pump and poured over the field to irrigate and fertilize it.

3. Gifts made and received during a lifetime would naturally be treated as hereditary successions.

4. The actual estates such as they will appear at the death of their present owners or, better still, at the time of a census of wealth which should be made immediately upon the promulgation of the law, would be considered as being due, possibly to the extent of one-half or two-thirds, to the labour and thrift of the owners living at the time the law goes into effect, and the other half or third as having come to these last through a single transfer of property. This would be necessary because it would otherwise be impossible to determine the diverse remote origins of all the estates existent to-day. I should also obviate too brusque a transfer of large quantities of wealth into the possession of the nation—a transfer which would produce, even though attenuated, the same grave economic perturbations as a violent revolutionary expropriation. At the same time, the normal proportion

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of deaths after the law once went into effect would give the nation its 50 per cent. of the third or the half—or in other words, its sixth or quarter—of the total of the estates left by each decedent, such as they might prove to have been estimated at the time of the aforesaid census ; so that the nation would experience an immediate benefit. Every increase of an estate between the date of the census and the death of its present owner would naturally be considered as resulting entirely from the latter's own labour and thrift.

5. If the total estate of the deceased were less than ten thousand dollars, for example, the nation should not make any heavier levies than are made to-day by the Death Duties now in force, whatever might be the diverse origins of the different parts of such an estate.

6. In its *rôle* of co-heir, the nation should, like the other heirs, receive its due share (as discussed in Article 2) not in money, but in kind—lands, buildings, mortgages, corporate securities, etc., except in so far as cash might be needed to equalize the amounts due.

7. In this division of estates between the nation and the other heirs of the deceased, the latter would have the privilege of choosing the particular properties which they preferred for themselves, provided, of course, that these were not greater in value than the share of the estate which might accrue to

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these heirs. Objects of personal use, furniture, jewellery, etc., while all entering into the computation of the total estate, would always constitute a part of the estate going to the individual heirs, on condition, here again, that their total value did not exceed the respective shares. Clearly, it would be quite possible in this manner for these heirs to continue in whatever economic activity was most in accord with their business preferences, and at the same time they would be able to retain within the family from generation to generation certain parts of the estate which might be the traditional possession or the subject of sentimental attachment of the family—*i.e.*, the paternal home, a particular piece of land, a given industrial plant, etc. It would suffice in this respect that each succeeding generation, earning and saving more than at present, should accumulate sufficient to prevent the value of this particular family property from exceeding the value of the share which would fall to the respective heirs.

8. If the nature of the deceased's estate did not lend itself to effective division between the nation and the other heirs—particularly where it was represented by a single investment, by a plot of land not susceptible of subdivision, or by a single piece of fixed property, or where it consisted of one business enterprise—the nation would become co-partner in the estate in question, allowing to the other heirs, however, the right to repurchase at any

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time the nation's share by a cash payment or by some system of instalments.

9. A special study should be made as to what branch of the central Government—be it an altogether new department, a National Property Commission, for example, or adaptation and enlargement of some already existing institution such as a development of the functions of the Commissioners of Inland Revenue, or a system of Board of Trade judicial receiverships—could best be entrusted with the administration of the properties which would thus pass little by little into the possession of the nation. At any rate, the Government department entrusted with the control of these nationalized properties would in practice probably have to assign the direct administration of the various properties, according to their respective categories, to special commissions as discussed below, which would be dependent upon it and would be responsible to it for their respective trusteeships. The creation of these managing commissions is in harmony with the opinions of those scholars who at present hold a position distinct both from the pure reformist Socialists and from the Communists.¹ They argue that the bourgeois State, congested and centralized as it is, cannot be the ideal of Socialism. In place of the bourgeois State there should be substituted a sort of constellation of institutions or commissions,

¹ Cf. C. E. Vandervelde, *Le Socialisme contre l'État* (Paris, 1918).

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each administering this or that branch of production. Preferable to the present type of political Government, organ of authority that it is, with its routine and its irresponsible bureaucracy, would be a Government where the management of industry was entrusted to more elastic commissions, local and autonomous, or to industrial guilds of some sort.

10. The bonds of the national indebtedness would be cancelled as rapidly as they passed into the possession of the nation. The bonds of local and municipal loans could also be cancelled under an arrangement whereby the cities and other local authorities would pay to the nation for the first twenty years only two-thirds, and during the next twenty only one-third, of the annual interest which they would have had to pay to the holders of these bonds, had they remained in private possession.

11. It might possibly be desirable, for the reasons pointed out in Paragraph 9, to allow the direct administration of lands to revert to their respective States or localities, that of other real estate such as dwellings or business buildings to the municipalities where they were located, while the sums of money accruing to the nation in the settlement of estates (discussed in Paragraphs 6 and 8) could be deposited in some sort of a National Farm and Labour Loan Association. The shares of the various industrial establishments could be turned over to the respective national unions or guilds under the stipulations dis-

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cussed below, and these unions would thus acquire the same legal personality relative to their industries as the organizations of private shareholders which they replaced. As to the other categories of property, the National Property Commission, or whatever other department for the administration of nationalized property were organized, might reserve the direct administration of them to itself.

12. The lands entrusted to the immediate administration of the States or localities where they were situated, might be rented to the same farmers who cultivated them at the moment of the death of their previous owners, on condition that these farmers united with their neighbours into rural co-operative associations, or at least into groups which would buy and sell co-operatively, and into associations for the production of certain specialized farm commodities. The National Farm and Labour Loan Association mentioned above, by means of its branches in each county, could make the necessary loans to these tenant farmers, through the channel of their co-operative associations, to enable them to carry on their enterprises.

13. A third of the total farm-rents from the lands thus under the control of the counties—the net total after subtracting the expenses of administration—might figure on the local budgets as an element of income. The remaining two-thirds would be returned to the National Government through the

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medium of the Central Property Commission—if such were the administrative agency decided upon. The Commission, in turn, would transfer it to the Treasury as an item of income on the national budget.

14. A third of the total rent receipts from the fixed properties in the form of dwellings and business edifices administered by the cities where these properties were located—the net total after subtracting the expenses of administration—might revert to these cities as an element of income in their municipal budgets. The remaining two-thirds would be returned to the nation and would be paid by the cities to the National Property Commission which, in its turn, would transfer it to the national Treasury, where it would appear as an item of income in the national budget.

15. A third of the total of the dividends from the shares in their industries entrusted to the trade unions might revert to these unions. They would employ this fund to purchase little by little the shares of their industries still in private hands. Or else they might enter it as an item of income in that portion of their budgets devoted to insurance funds against unemployment, sickness, accidents and old age, adding this fund to the portion of their insurance money contributed by the States, where such was the case. Or else the unions might be allowed to distribute this fund among their members

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under the form of a bonus proportioned to their respective annual salaries. The other two-thirds would be returned to the nation, being paid by the unions to the National Property Commission, and by it transferred to the Treasury. By this system of shareholding on the part of the trade unions in the different branches of industry—which would be rendered gradually possible by our programme—the advantages of co-operative production and of large-scale individual enterprise would be united. At the same time, by giving such advantages to the trade unions, their development in all branches of large, medium and small-scale industry would be facilitated.

16. The revenues and dividends of all the other properties directly managed by the National Property Commission or an equivalent department, would be directly transferred to the Treasury after deducting the expense of administration, and would be entered upon the national budget as an item of income. By thus entrusting the administration of the properties, slowly becoming nationalized, to agents entirely unrelated to and distinct from the executive power, and especially from the Treasury, and by allowing the nation, the counties and the municipalities only the *revenues* from the nationalized properties (as outlined in Articles 13, 14 and 15), there would be avoided the danger that this nationalized wealth might be employed to meet

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governmental expenditures or to cover public undertakings. To avoid involving the country in a rapid and disastrous economic ruin, these properties should always scrupulously preserve their quality of capital goods during their transition from private to collective ownership. It will never be possible to take too many precautions in this direction.

17. All these items of income thus poured into the Treasury and destined to cover national expenditures, would increase year by year, while the destruction of the issues of the public debt as rapidly as the nation received them through the operation of the Death Duties, would year by year diminish the sum necessary to meet corresponding interest payments. Consequently, the nation could and should diminish its taxes every year. The local authorities and the municipalities might also proceed to diminish their taxes, inasmuch as they would also find their fiscal liabilities decreasing year by year as their own loan issues were gradually cancelled to the extent that these passed into the possession of the central Government (the local authorities and municipalities, as said above, would continue paying only a part of the interest on these bonds to the central Government and this only for a limited number of years). Moreover, their income would be increasing, thanks to the inclusion in their budgets of the above said third of the revenues resultant from their respective holdings of nationalized lands and

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fixed properties. This annual increase of the revenues at the disposal of the nation, the local bodies and the municipalities would enable them to make more generous provision for their urgent needs—and among these, first place would have to be given to popular and trade education, to social hygiene and to insurance projects for field and factory workers. At the same time, a gradual transformation from the present fiscal system resting on taxes to a system based entirely on estate duties would be made possible. The abolition of all those taxes so burdensome to industry, which has always been the supreme dream of the orthodox economists and which would unquestionably give a new scope to industrial development, would become a possibility.

Clearly, the programme which I have just sketched is no more than a rough draft, the embryo of a project which would have to be studied, enlarged and completed before it was capable of realization. There is hardly need to point out that I have not touched upon several matters which are of the greatest importance. Among these are the problem of properties in the possession of aliens, the modifications which would be necessary in cases where the death of the heir followed so rapidly upon the death of the relative from whom he had inherited that there could be no possibility of his augmenting the estate in the interval, the contingency that such

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changes in money value might occur that an estate greatly increased by an heir might appear to have exactly the same money value as the property he had inherited, and many other problems which will arise upon consideration of the possibilities of application.

As for the question of the prevention of fiscal frauds, it seems to be partly solved by the campaign being waged in several countries, even by conservative financiers, to have all industrial shares and public bonds registered.

The habitual bugbear of the desertion of capital to other countries, which is raised on the occasion of every reform which might lessen the privileges of private property, may once more scare the more timid partisans of reform. However, this is a bugbear to which is attributed an importance greater than it deserves. A great part of this evasion can be prevented by suitable measures ; moreover, the capital which can be effectively shifted abroad constitutes a very small fraction of the total wealth of the nation. Above all, it is probable that this bugbear will soon lose all weight, considering the irresistible propaganda effect that such a profound reform in any one country would have in all other countries with a highly developed capitalistic type of production and where the desire of the working classes to emancipate themselves is certainly not less than in the United States or England.

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Besides, international conferences could decide upon suitable legislation to be incorporated into the laws of all countries that would check this fiscal evasion.

Without doubt, this reform will not satisfy extremists ; but *it is not intended to satisfy them*. What they really desire is a violent revolutionary expropriation, or at any rate a more rapid process than I have outlined. Such a crude expropriation, quite apart from the injustice inherent in it, would result in the most catastrophic economic chaos imaginable in any country with a highly developed system of economic production. It would bring with it endless sorrows and miseries for all classes—for the proletariat itself more than any other class. The events in Soviet Russia as well as the recent partial renunciation of the Bolshevik programme in that country are sufficient confirmation of this assertion.

But this reform might well be championed by those Socialist leaders who, though still adhering to the traditional programme of the nationalization of private capital, intend to proceed to it gradually and legally ; at the same time this reform might be approved by the various radical parties as well as by the most progressive and enlightened fraction of the bourgeoisie. Certainly the latter will recognize in this reform not the negation of the significantly effective utility of the institution of private

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property, but only a procedure that will equitably limit it and bring it into agreement with the greatest social well-being. It is only thus that the institution of private property will find its justification, and that it will be able to attain in its essentials a more solid foundation than the vacillating supports on which it rests to-day.

The thinking world must give profound consideration to the present state of things. We face an increasingly bitter warfare between the two basic factors of production ; there is spreading more and more and taking root in the minds of the masses of wage earners the conviction that they should refuse to continue labouring for the sole purpose of increasing the profits of capitalistic exploiters. Chronic revolutionary ferment is spreading in every capitalistic country, and not least in America, which suffered little from the war ; in some countries class hatred is fomenting almost to social-phobia. This conflict is weakening the basis of our social structure, and in the long run can lead only to general economic ruin and to the destruction of our twentieth-century civilization. Our political thought, our statesmanship, must embody the idealistic aspirations toward a superior social justice. It must contemplate emancipating the exploited and the oppressed ; it must assure a more equitable economic relationship between man and man ; it must stimulate producers with renewed ardour to

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intense and eager production and to the salutary accumulation of new capital. Only thus may peace and brotherhood be restored to mankind and a new and more enlightened era be inaugurated.

Let all liberal and progressive elements in the councils of local and central Government translate this supreme aspiration of mankind into reality.

PART II

CRITICISMS DIRECTED AGAINST THIS PROJECT

REPLIES TO THE CRITICISMS

CHAPTER I

Criticisms by Orthodox Economists

FROM several quarters, criticisms of various kinds, some technical, others theoretical, have been levelled against the plan of reform I have just presented. It will be of value to set forth the most fundamental of those coming from orthodox economists and from Socialists of varying tendencies, and to formulate the answers to them.

The first of these criticisms,¹ since accepted in many polemical writings, may be stated as follows : “ How could it be proved that the deceased had not, during some given period of his life, consumed or spent for the satisfaction of immediate needs the share of his estate which he inherited from his father and from his grandfather ? In such a case his entire estate at his death would have to be considered as resulting from his own efforts and hence non-taxable. For example, Mr. A. inherited

¹ It was made by Professor A. Graziani in “ Una proposta di riforma del diritto successorio,” in the economic supplement of *Tempo*, September, 1919 (reprinted in vol. xlvi of the *Atti della R. Accademia di Scienze morale e politiche di Napoli*). Cf. also A. Bernardino, *Critica di una teoria di E. Rignano* (Palermo, 1921).

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£60,000 in his youth ; being extravagant in his early days, he squandered this money ; then in later life he reacquired through his business ability not only the original £60,000 of his inheritance but an additional £40,000, so that at his death he left an estate of £100,000. In this case, the fact that Mr. A. had originally inherited £60,000 should not prevent him from disposing of his estate of £100,000 as he desired, for after all, it was earned entirely by his own efforts.

“ In the proposed plan for reforming the right of inheritance, it is asserted that the possibility of freely disposing of the share of the estate acquired by the testator himself, in contrast to the considerable levies made upon the share received through inheritance, would constitute an incentive to a greater accumulation of wealth. On the contrary, the heir will have an inducement to consume his inherited wealth during his life-time, for he will fear that later, instead of being able to confer benefits with it as he might wish, he will be unable to prevent it from being absorbed wholly or in large part by the fiscal levies.”

This criticism misses the point. For evidently the essence of the proposal was that the nation should not concern itself in the least with the history of the inherited property during the life-time of the heir. If someone has inherited £60,000, if he dissipates this and later accumulates £100,000,

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the nation has no alternative but to consider the first £60,000 as representing the inherited property. If A. borrows £60,000 from B. to invest in a given enterprise, if it turns out badly, and if later in some other enterprise A. gains £100,000, the fact that he first lost the borrowed sum and then by other means gained a greater amount does not relieve him from the payment of his debt. He has to deduct this sum from the total of his new profit.

Precisely for this reason no heir would be tempted to squander his inheritance. Even though his estate descended to him in its entirety from his grandfather so that at his death it would pass entirely into the possession of the nation, if he had sons to whom he wanted to leave a certain property, he would be all the more constrained to preserve his inherited estate intact, for it would only be the surplus over this total that would accrue to his sons. Were he to squander the inherited estate, he would not be able to bequeath to them anything *until he had reaccumulated the equivalent of the estate which he had inherited and dissipated*. Consequently, his principal care would be to preserve it intact in order that the entire surplus which he accumulated through his own labour and his own thrift might be transmitted as a whole, or almost as a whole, to his own heirs.

The same critic has also levelled another objection against the proposed system :

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“ The considerations entering into the establishment of this system are based on the hypothesis of wealth existing under the form of money or consisting of easily divisible properties and securities. But where the wealth of the testator was invested in industry and commerce, the share appropriated by the nation might constitute an inextricable complement to that inherited by private beneficiaries. The inheritor of agricultural property may have added to its value by means of improvements or by general expenditures for clearing the land ; the owner of a factory may have enlarged it. A distinction would have to be drawn between the two elements of the property ; a separation would have to be effected, in order to enable the nation to claim its share of that part of the property which had the older origin. If the share of the fortune accruing to the nation were converted into money, it would probably force the heirs to incur heavy debts and so further reduce the revenues from their share of the property. This consideration would weaken the incentive toward accumulation, the accentuation of which is claimed as a virtue of the proposed reform.”

Let me emphasize the point, as I have done in the previous chapter, that the discrimination between different portions of the estate according to the relative number of transfers they had undergone would be purely quantitative, determined on the

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basis of their monetary values. Thus, if an agricultural property had been improved by clearing operations, if a factory had been enlarged or equipped with more modern and better machinery, the nation would concern itself only with the value which these properties possessed at the time the decedent inherited them and with the increase in value which they represented at his death. The difference would represent fairly accurately that surplus portion of the estate resulting from his own labour and thrift—the portion he would be able to dispose of with fewest restrictions. Consequently, there would be a greater incentive than to-day for him to enter upon improvements, enlargements and transformations, for these undertakings would represent the portion of his estate which would be of the most benefit to his own individual heirs when, at his death, a division of the estate would be effected between these heirs and the nation.

So far as concerns the difficulty of dividing a single landed estate or a single factory between the heirs and the State, considered as a co-heir, in the infrequent case where either of these properties constitutes the entire estate of the deceased, the difficulty is the same which occurs to-day when there are more than one heir, and which none the less it is possible to surmount : the intervention of the State as co-heir does nothing but increase by one

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the number of heirs ; and the fact that the State levies in kind its own share like the others—with the implication that the State will ultimately figure as joint owner of the undivided estate—will permit a just solution of the practical difficulty of the hereditary division precisely as the difficulty is solved to-day in the case of private heirs.

The criticism which has naturally the most adherents among those who pride themselves on their economic orthodoxy and desire to maintain this strictly orthodox tradition, harps upon the inconveniences of nationalization, even though it were to be realized slowly as our reform proposes.

According to our aforementioned critic, Professor Graziani, it is precisely because the project in question would result in a broad nationalization of all types of productive capital goods, that its adoption should be opposed. “The author of the project,” adds Signor Graziani, “affirms that after enterprises are established and developed by individual initiative, they will revert to the nation or to some sort of a collectivist consortium, and that, by judiciously distributing the administration of them, the nation will be able to utilize them for the collective welfare. There are certain types of industry where the natural conditions lead to monopoly and where the economic functions reduce themselves to formalized and regular operations

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similar to the customary ones of public administration ; for these, public management might be more advantageous than private. In the majority of enterprises, however, its inferiority is manifest. Past history furnishes many examples of economic follies and the enormous squandering of wealth because of imperfect knowledge of the technique of production and of the distribution of markets ; to these must be added the confirmation of contemporary experience in all the belligerent countries, which demonstrates that the meddling of the State in industrial and commercial undertakings resulted in heavy social losses, and that the prime element in intensive production was the action of private initiative.

“ It will be said,” this same critic continues, “ that the author of the project claims to remedy this disaster by proposing that the nationalized enterprises be leased out ; but this would result in no more than a *régime* of private enterprise without the benefits inherent in the spontaneous selection of a competent managing *personnel* through the operation of competition, and with all the inconveniences which appear inseparable from public concessions. Besides, it is difficult to discover what benefits the working classes would gain from this nationalization ; they would not better their situation ; on the contrary, since production would decline under public administration because of the lack of

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business spirit, their interests would suffer. Moreover, within the circle of capitalist production itself, there are appearing the outlines of systems of broader participation in its benefits—or more to the point, of rewards more in proportion to the effort of the worker and to his contribution to the final product. There are more opportunities for those workers who are skilled and who have a gift for the direction of enterprises to take an important part in production. Moreover, a general reduction of working hours is being realized by agreement between the labour unions and the employers. The form of these rewards is not important in itself. They possess significance only because they provide an incentive for greater production, in that they assure to the capitalist the profits which induce him to invest his wealth in the enterprise, accept its risks, and develop it into an organized economic activity. This result is achieved by a system of high salaries, which is developing on an ever-increasing scale as machine production grows more intricate and a more thorough technical education of the workers becomes necessary.”

This mass of objections, of which several items deserve detailed examination and careful analysis, is directed not so much at my special proposal for a reform of the right of inheritance, as at the general Socialist principle of the nationalization of all the instruments of production. It is my theoretical first

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premise that this principle seeks to realize a greater justice in the economic relations involved in the distribution of wealth, together with an augmentation of the production of wealth. Consequently this is not the place to enter upon a thorough discussion of this subject, the more so since the eventual solution of this question—and naturally it is not a local one but world-wide—will not depend on the outcome of a theoretical quibble, but upon the growth of the proletariat into the preponderant social factor as against all the other social classes combined—an argument whose verification will be achieved by Time.

Admitting that this preponderance may be realized in the not too distant future, it is worth considering whether it is not preferable for the capitalistic caste and for the bourgeoisie to anticipate this social transformation in concert with the more advanced and class-conscious portions of the proletariat, so that it will accomplish itself gradually and by legal means, without violence, without shocks, without an economic derangement. If they choose to resist and oppose all concession, they will find themselves suddenly crushed by civil war and a violent revolutionary expropriation, which would be for all classes—and particularly for the proletariat—the greatest and most horrible catastrophe ever precipitated upon mankind.

Permit me again to seize the opportunity to

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emphasize that this proposed reform of the right of inheritance would not only respect the fundamental *desiderata* of orthodox economics in all that concerns the production of wealth and the accumulation of capital, but that in some ways it would tend to realize them more completely than the present system ; at the same time it would satisfy the extreme postulates of Socialism. It would leave the fundamental processes of the production of wealth and the accumulation of capital to unhampered private initiative, urged by the spur of competition. It would cause this capital wealth to pass into the possession of the nation only after it had already been amassed and hence required no other administrative activity than leasing or renting. By developing at the same time, on the one hand, the principle of the Share-Holding State, it would tend to minimize the direct and cumbersome action on the part of the national Government. By developing, on the other hand, the principle of the Share-Holding Trade-Unions, it would seek to institute effective labour co-operation in production on a large scale. Finally, it would eventually make possible the replacement of the present fiscal *régime* based on taxes which hinder all industry, by one resting entirely on inheritance revenues. Such a system ought consequently to be less subject to the criticisms of orthodox economists than any other Socialistic system.

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All this possesses a certain political significance and importance, in that it may serve to weaken the doctrinaire resistance of the conservative economists to a reform which, it must be frankly confessed, seeks to substitute a Socialistic *régime* in place of the capitalistic system, which these economists as a group defend and strive to maintain.

Certain economists who may be grouped together and whose spokesman is the Italian senator, Professor L. Einaudi, one of the most influential leaders of Italian bourgeois conservatism² and one of the most scholarly masters of the orthodox group centring about *La riforma sociale*,³ believe that any reform which tends to weaken the consistency of the family is not advisable.⁴

According to these critics : " There are many individuals who love the things of past ages and attribute an importance to tradition, to the conservation of families and estates through successive generations. While admitting the utility of eliminating at times an incapable generation and replacing it by successful members from other social groups, they consider it equally socially desirable that families capable of preserving their ancestral estates

² He is the economic and financial specialist attached to the great conservative paper *Il corriere della sera* of Milan.

³ An important magazine of Turin.

⁴ L. Einaudi, *Il problema della finanza post-bellica* (Milan, Treves, 1919), p. 161, *et seq.*

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should tower above their neighbours like old oaks, the last of vanished forests, over the surrounding empty fields. Such people ought to hesitate long before accepting a fiscal policy which would accelerate the dissolution of families, the annihilation of tradition, and the transformation of mankind still further into nomads living in rented dwellings or hotels, dealing in negotiable securities, possessing international tastes, and without sentimental attachment to the ground where they were born or where their families and their ancestors are buried. Why should the principle of taxation be utilized to realize a society composed of unattached individuals, to co-operate in the destruction of an ideal still so vivid in the hearts of mankind and which serves to temper the anti-national and anti-family tendencies of the railroad, of the telegraph, and of mobile industry ? ”

There is some weight to this objection, but it is undeniable that its sentimental origin clashes with the tendencies of a society in the process of transformation toward a mode of life less shut in, less patriarchal, less national. At all events, it seems to me that the suggestions in Paragraph 7 of the preceding chapter are a sufficient reply. The precautions noted there appear adequate to retain in the possession of a family those properties which are the objects of particular attachment through successive generations—articles of personal use, furniture, jewellery, or even dwellings, family seats,

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or family industries. It is only required that each succeeding generation should amass a sufficient surplus of wealth by labour and by thrift, so that the value of the family property should never exceed the value of the share of the estate of which the testator may freely dispose.

However, we must not spend too much time on this criticism formulated by conservative economists. It skilfully draws attention to certain sentimental, archaic and arcadian aspects of the capitalist *régime*, but it forgets altogether to point out the ugly and unjust miseries, the too numerous exceptions to this ideal of patriarchal family life which this *régime* permits or causes, and the inadmissible privileges it implies for parasitic and useless individuals who otherwise would be condemned by nature to be replaced by others more worthy than themselves.

The following objection made by Professor Gini, among others, deserves consideration. He points out ⁵ that the reform will inevitably lead to new forms of injustice unless stability in the value of money is first guaranteed.

This objection has gained a certain weight in these days, in view of the great changes in value which money has undergone as a result of the war. But in normal times, these changes are of much

⁵ C. Gini, "Problèmes financiers d'après guerre," in *Scientia*, June-August, 1921.

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less importance. At any rate, as Professor Gini himself observes, this difficulty could always be obviated by a carefully devised system of index numbers. Nevertheless, it remains undeniable that one of the most important conditions for the fundamental success of our reform will always be a national monetary policy which will seek to reduce to a minimum the artificial variations in the value of property resulting from excessive emissions of paper money.

CHAPTER II

Certain Strange Objections by Hypercritical Socialists

LET us proceed now to the objections raised by Socialists.

Rinaldo Rigola ¹ considers that by our programme progress toward an extensive nationalization would be much too slow.²

On the contrary one might be pardoned for believing that the road is shorter than need be if we desire to pass from one *régime* to the other without too violent an economic upheaval, and if we wish the nation to develop gradually the necessary organs for its new functions. Were it desired, this road could be further shortened by amending the transitory provisions of the project, so as to increase, in the case of owners alive at the time of the promulgation of the law, the share of the estates which would be considered at their death as due to inheritance and not to their own labour and thrift, and by increasing the percentage of the shares of the estate which had already undergone

¹ Former secretary-general of the Italian C. G. T.

² In *Problemi del lavoro*, January 16-31, 1920.

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previous transfers and which would revert to the nation. But again it should be reiterated, that, by hastening the tempo of nationalization, the evil effects of a violent revolutionary expropriation would be incurred ; doubtless they would be attenuated, but their dire reaction would be felt by the working class more than any other. At the same time, the resistance of the capitalist class to the reform would increase.

In any case, a gradual nationalization without compensation is preferable to an immediate nationalization with compensation. Where the latter affected a great extent of capital goods, it would be impossible. Were it possible, its benefits would be illusory, since the nation, in order to pay the interest on the debt arising out of the purchase, would have to levy upon the annual social produce by means of taxes a sum equal to that levied by private ownership under the form of revenues from these very properties.

It has been argued by Professor B. Griziotti ³ that there are few families which maintain their ancestral estates ; that in general, these fortunes break up or are wasted within a few generations after their formation.

This seems to me all the more reason to endeavour,

³ In "Per una riforma dell' imposta di successione," in *La critica sociale*, April 1-15, 1920.

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by means of an opportune modification of property rights, to remove these fortunes from the possession of wasteful heirs in time to save them from being squandered, and to place them in safe-keeping by transferring them to the possession of the nation.

The same critic insists on this attack by pointing out that capable, hard-working fathers have prodigal sons for heirs, who are incapable of conserving or increasing their fortune.

This is precisely one of the unfortunate consequences—and one which has often been pointed out—of the unconditioned right of inheritance; this privilege allows weaklings to transmit intact to their heirs large fortunes inherited from their fathers, even though they have done nothing to add to them. It takes from them all incentive to labour and economise, accustoming them on the contrary to do nothing and to consume the total of their agreeable revenues—a manner of living which tends to transform itself in them and in their respective heirs into an inclination to squander not only their revenues, but the estate itself.

The same critic has recourse even to statistics ⁴ which indicate that, on the average, the wealthiest classes have fewer heirs in the direct line than people not so prosperous, and that of the possessors

⁴ *Vide* C. Gini, *Ammontare e composizione della ricchezza delle nazioni* (Turin, Bocca, 1914).

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of estates who leave heirs, those who leave the most are the least rich.⁵

This might serve as an argument against a reform tending toward the nationalization of private property if, when a rich capitalist left no heirs in a direct line, his estate passed to the nation. But unless I am mistaken, in the absence of heirs in a direct line, the wealthy at present bequeath their fortunes not to the nation but to more distant heirs. Precisely because the very wealthy leave fewer heirs in the direct line than less well-to-do people, there are quite a few fortunate persons who inherit not only the estates of their parents, but also those of all their uncles, grand-uncles, cousins, etc., because these have no direct heirs. Thus, the privilege of bequest and inheritance as it exists to-day still further exaggerates by causes of a legal nature the concentration of wealth in the possession of a few individuals, already stimulated as it is by economic evolution. Thus we have still another reason to modify this privilege of bequest and inheritance so as to check the assistance which the legal factor affords to the process of the concentration of wealth in the hands of a minority.

The same critic⁶ suggests that the proposed system is not certain to provide a stimulus for working and thrift, or at least that this stimulus

⁵ Griziotti, *loc. cit.*

⁶ *Ibid.*

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will not be as strong as we have affirmed. "Let us suppose," says Professor Griziotti, "that John Smith, after having paid the taxes upon his inheritance, possesses £60,000 descending to him from his grandfather and another £60,000 resulting from the economies of his father. The son of John Smith will have to pay the tax-collector all of the first sixty thousand and half of the second; he will have only thirty thousand pounds left. If John Smith desires to pass on a fortune of one hundred and twenty thousand pounds to his son, he will have to accumulate an additional ninety thousand. During wartime conditions it is relatively easy to double one's estate; but in ordinary years, this happens only in isolated cases."

Let us admit, with Professor Griziotti, that it is difficult for John Smith to accumulate ninety thousand pounds in ordinary times (although it should be noted that this Mr. John Smith finds himself in a better position to do this than many others, since the £120,000 which he has inherited may represent a business enterprise fully developed at the time of his father's death, that may enable him to interest himself in new enterprises or become a partner in such, or at least he may economise upon the income from a safe investment of the £120,000, and so forth). But conceding that John Smith may not succeed in accumulating enough to be able to pass on to his children as much as he had inherited,

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where is the misfortune? From a social point of view, the important consideration is that he be stimulated to labour intensively and as hard as possible in order to leave to his own heirs somewhat more than the little share of his inherited fortune which the new inheritance provisions would permit. Now, not only will the proposed system give him this incentive, but society will still allow him during his lifetime the pecuniary means to facilitate his success.

If despite his efforts he is unable to leave his heirs more than £80,000, £60,000, or £40,000, I extend my sympathies to these poor little heirs who perhaps will no longer be able to enjoy the luxury of living *en limousine*; but society will not be the loser. Rather it will gain if the poor little heirs are forced to earn their livelihood even as the rest of us do.

It cannot be reiterated too often that the unconditioned privilege of will and inheritance as it exists to-day does not in any manner provide a stimulus for people who inherit large fortunes still further to increase their inherited wealth, but only *to preserve this capital* in order to be able to transfer it intact to their children. On the other hand, the new privilege of will and inheritance, as it would be constituted by the proposed reform, bearing heavily to the extent of 50 per cent. and 100 per cent. on fortunes acquired by inheritance and exempting

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the share added to these fortunes by the labour and saving of the testator himself, would unquestionably cause him to consider every sum so added *as having a greater value than an equivalent sum which he had inherited*. It is this *extra value*, so to speak, inherent in the wealth accumulated by his own labour and thrift, that would provide the heir with a new incentive to labour and economise, three or four times greater than the present stimulus.

Of course, it is possible to close one's eyes to the beneficial stimulus, not only moral but also economic, given to most individuals by the extra value of the wealth acquired by their own efforts as contrasted with that received because of the efforts of others, and to emphasize, as some critics have done, the sporadic pathological cases where opposite effects can be proved. It seems to me, however, that this is scarcely the most favourable frame of mind in which to examine objectively and impartially the reform under discussion.

Other critics refuse to consider this project since they hold as out of date the theory of economists like McCulloch and Wagner that heavy taxes may give a greater impetus to production and to accumulation.

Note well that what I have asserted is that the reform would augment the incentive to labour and to economise, not because of the simple fact that

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certain taxes would amount to 50 per cent. or 100 per cent., *but because of the conditioning circumstances of these heavy levies*. Since these heavy taxes would bear only upon the inherited portion of an estate and would exempt all that was added by the labour and thrift of the heir, he would inevitably come to consider all contributions by himself as having a greater proportionate value than the wealth he had inherited. £20,000 thus accumulated would possess in his eyes, relative to the fortune he desired to leave to his children, a value equivalent to £50,000 or more he had inherited. It is this *extra value* inherent in the capital accumulated by his own labour and saving which would provide the three- or five-fold incentive to such labour and saving.

Another objection also formulated by Professor Griziotti,⁷ who strangely enough is a Socialist, is borrowed by him from the already noted book of the conservative Professor L. Einaudi : ⁸

“ There are many people who through youthful inexperience or through lack of business acumen may lose their entire ancestral estates during the early period of their lives. It is hardly an encouraging outlook for them to know that any fortune they may accumulate up to the equivalent of the estate originally squandered or lost will be subjected to a

⁷ *Loc. cit.*

⁸ *Il Problema della finanza post-bellica.*

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tax of 100 per cent. or 50 per cent. just as though it had originally been a part of the estate inherited from their grandparents or from their parents ! ”

Quite true ! But this is hardly more than saying that as a man makes his bed, so must he lie in it. If this unattractive outlook seriously checks the youthful inclination to squander wealth and places a premium upon prudence, it seems to me that society has little to lose and all to gain. Moreover, it will always be possible to introduce statutory exceptions for cases where the inherited estate might be lost through fortuitous circumstances or *force majeure* ; however, a competent tribunal would have to pass upon such cases and closely check and limit them, in order that the entire significance of the reform should not be lost.

Naturally it has been argued ⁹ that taxes amounting to 50 per cent. and even to 100 per cent. would lead to fiscal evasions on a grand scale.

A moment's reflection will show that these evasions could scarcely be more numerous or more serious than those of to-day, since these inheritance taxes of 50 per cent. and 100 per cent. would be levied on the shares of the estate previously inherited by the deceased, the value of which, consequently, would be established by official documents. The share capable of evasion, in so far as there would be

⁹ Griziotti, *loc. cit.*

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no record of it, would be that accumulated by the labour and thrift of the deceased ; but on this share, under the proposed reform, *the levy by the nation would be no more than that in force to-day*. Besides, the registration of all negotiable securities would provide a remedy against the most flagrant source of evasion ; this is a measure endorsed by orthodox economists as well as by Radicals.

Moreover, the nation, when it intervened in each inheritance no longer as a fiscal power levying a monetary imposition, but rather as a co-heir, would have the right to make investigations and to benefit by all the guarantees protecting private heirs. It could, as a last resort, obtain the appointment by the proper tribunal of an executor who would attend to the administration and inventory of the inheritance until the co-partnership of the individual heirs and the nation came to an end.

Some critics ¹⁰ include among the dangers of fiscal evasion, those of the emigration of capital to foreign countries.

According to the most pessimistic of these hypotheses, a rich man, rather than permit the nation to despoil him of the wealth transmitted to him by a long family succession, would dispose of it or invest it abroad, or simply change his residence to a foreign country.

¹⁰ *Vide Griziotti, loc. cit.*

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It should be noted, however, that by the proposed reform, the wealth and the estates existing at the moment of the promulgation of the law would all be considered as resulting to the extent of one-half or two-thirds from the labour or saving of their present owners, and the other half or third as inherited by them through a single transfer of ownership. Thus upon these family properties, the nation would levy at the death of their present owners no more than a sixth or a fourth. For the rest, it seems to me that the dangers Professor Griziotti fears could always be met by declaring void all sales of lands and fixed property for the purpose of transferring their values to foreign countries.

“Industrialists and merchants,” Griziotti retorts, “unless they possessed enterprises particularly susceptible of monopolistic development and were receiving more than an average return from their own activities in their fatherland—which is not very frequent in normal times—would also find it to their interest to liquidate their industries and their enterprises and to remove themselves to countries where they would not run the danger of having their wealth confiscated.”

It should be remembered that the taking of the half or the whole of an estate would occur only when the estates of these industrialists and merchants were inherited, and then only at their death ;

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they would be as free to dispose of that share which they had earned through their industries and mercantile undertakings as they are to-day. Such being the case, is it credible that an active and intelligent man who had inherited an industrial or commercial enterprise with which he might double or triple his original inheritance would proceed to liquidate it and depart for other lands to start an entirely new enterprise under conditions with which he was imperfectly acquainted and the success of which would be problematical? Besides, this evasion would be rendered difficult by a law declaring void all liquidations and sales for the purpose of transferring abroad the portions of estates belonging to the nation.

We should not go so far as to say that the danger of the emigration of capital does not exist, but we affirm that the critics of the reform enormously exaggerate the danger. After all, this is a peril which not only this reform, but every reform of a Socialistic character, must run foul of—a peril which will threaten even every fiscal reform in the direction of the taxation of wealth to which the bourgeois Governments of the former belligerent powers will sooner or later have to resort. Sooner or later private capital will find itself subjected to heavy levies by the national Governments of all the countries of Europe and perhaps of the world, and this will come about as much by budgetary

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necessities as through the ever-increasing pressure of the proletariat : where then will be the dangers of the emigration of capital ? In the end, this errant capital, go where it may, will find itself cornered.

Besides, from now on it would not be altogether beside the point for the Socialist and Radical parties of the various countries to study in their international congresses a programme of action which might be introduced into the national legislatures where they are actively represented, and so check such fiscal evasion and thus reciprocally annul its bad effects.

We should remember that the spectre of the emigration of capital has been raised by orthodox economists ever since the beginning of labour agitation for higher wages. Capital will emigrate, the professorial Cassandras used to thunder, to countries where wages are lower and where, consequently, profits are greater. But labour organization has developed in every advanced capitalistic country, and this circumstance, itself determined by the very development of capitalistic economy, has weakened any tendency for capital to emigrate from one country to another. Doubtless this tendency has only been weakened and not completely suppressed ; for there are countries in Europe and particularly on the other continents where wages are lower, and there has been a certain emigration

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of capital to these countries. But has this been a disaster for the countries where labour organization has achieved its greatest successes? We all know that the contrary is true, that the prosperity of those countries where wages are highest and conditions of labour most satisfactory has continued to grow with increasing rapidity, whether this be explained by the fact that the emigrant capital represented only a small fraction of the total value of the new private capital which was each year added to the capital already existent, or because *the evil caused by this emigration of capital was more than compensated by the increased productivity of labour resulting from higher wages, better working conditions, and a raising of the intellectual and moral level of the working classes.*

CHAPTER III

Nationalization and the Reform of Inheritance Rights

UNFORTUNATELY, in Socialist circles, a possible reform is sometimes checkmated in advance by a specious argument. In the name of the formula "all or nothing," programmes which would prepare the way for a greater reform are disdained. The proposed system of progressive Death Duties has been criticized on the ground that it is purely a fiscal measure, and these critics go on to add the statement that real assistance in undertaking social reform is not to be sought in *fiscal politics*, for it is to be taken for granted that *taxes* rarely tend toward this end.¹

The reform which I am proposing seems to me to be not a purely *fiscal* reform but an essentially radical modification of the *right of property*. A *new property right* is substituted for the property right now in force. And since property rights constitute in a way a system of dykes which mark out the channels and determine the course of the

¹ Professor B. Griziotti, "Per una riforma dell' imposta di successione," in *La Critica sociale*, April 1-15, 1920.

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economic process, so a new system of dykes would result in a new network wherein the course of the economic phenomena of the future would develop.

In England, the inheritance of landed property is bound up with the principle of primogeniture, in France with the principle of equality of division. This difference in inheritance rights in the two countries has resulted in economic phenomena as divergent as the latifundian agriculture of England and the intensive culture of peasant proprietorship in France. In the more remote past, the manorial system of Western Europe and the collectivism of the slavic East gave rise to modes of economic activity quite distinct from each other. What grounds, then, have the critics of the proposed reform to insist that the different forms which the right of property may take cannot affect the process of economic development and direct it along new lines ?

It is all very well disdainfully to condemn a reform of the right of inheritance by qualifying it as a mere fiscal measure : this measure will nevertheless have a not inconsiderable share in paving the way for the more complete social reform of the future. The reform will not be realized through any wave of a fairy wand.

As I have asserted above,² the Marxist doctrine, that a collectivist *régime* is to be attained only

² *Vide supra*, ch. III.

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through the blind play of economic forces, certainly had during its early days a great effect upon the labouring masses and expedited the spread of the Socialist dogma among them, since it communicated as much to the propagandists as to their hearers the firmest faith in the event in question, a faith which was a most important psychological element in making proselytes. But beneath its revolutionary and dynamic appearance, this catastrophic and fatalistic doctrine, essentially dogmatic, contained insidious germs of social conservatism and inertia. It implied, in effect, that the legal superstructure of society, while determined and shaped by the processes of the material production of wealth, was incapable of reacting upon this economic process through any sort of modification of itself, even where such a modification might be realized through the attainment of power by new social classes. Thus the Marxist doctrine has left the Socialist leaders without any positive guide, without any criterion to indicate to them the general direction which they should choose. It has condemned the Socialist parties, even where they have had sufficient force to act, to the most deadening impotence. Clearly then, those socialists who persist in refusing to admit that even profound modifications of property rights have the power of creating a better economic system or, worse still, who intentionally ignore such reforms as mere

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fiscal acts, repeating over and over again that taxes can in no way lend themselves to audacious social transformations—such Socialists only aggravate this Conservative tendency inherent in the fatalistic Marxist doctrine. Without wishing it, they make themselves accomplices to an inaction on the part of the Socialist movement which only reinforces the Conservative cause. They are welcome to reject the proposed reform if they have anything better to offer. But when they profess to believe in a rapid development toward a Socialistic *régime* in the near future, it is their duty as Socialists—or more simply, it is their duty as members of society—to state precisely the concrete means by which this Socialist *régime* is to be attained. In economic matters as elsewhere, not faith or hope, but action alone is the impelling force behind life and progress.

The question has been raised whether the proposed reform will lead to the inauguration of a truly Socialistic *régime*. This criticism has been made by the Italian scholar who has made the greatest progress in studies along Marxist lines—Professor R. Mondolfo.³

“Can such a dualistic system of social confiscation and capitalism,” he asks, “be presented as a programme for Socialism? Can it suppress the dis-

³ “Intorno al Progetto Rignano,” in the *Critica sociale* of Turati.

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inction between capitalists and wage-earners, exploiters and exploited ? ”

Now, without entering upon a wordy debate and putting aside the question whether the *régime* to which the proposed reform would lead would be truly and completely Socialistic, I wish to say only this : the system, while preserving the possibility of profit to the accumulators and possessors of the new individual capital that is constantly being formed, and precisely because it would safeguard this possibility, would bring about a *régime* of greater justice. If the function of accumulating new capital is left, for the good of society, to individuals (to the exclusion of or concomitant with the exercise of the same function by the nation ; and *à propos* of this I ought to admit that, with the orthodox economists, I am most sceptical on this point), then it is only just that a certain reward in the form of interest or profit be allowed to those who exercise such a useful function. Senior's famous premium for abstinence is ridiculous when it is awarded to heirs who since the hour of their birth have not engaged in any act of abstinence whatsoever ; but it coincides with a principle of justice if it is allowed to those who accumulate new capital by means of their own labour or their own effective thrift.

Since the proportion between the total of private capital and the growing total of the capital becoming

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constantly nationalized would steadily diminish, there would be a corresponding decrease in the share of the annual social revenue which reverted to capitalists in the form of profits and interest. It is precisely the rapid increase of this share at present that gives it the appearance of an inimical exploitation of labour.

The distinction between capitalists and wage-earners would lessen as the latter received through their co-operative associations an ever-increasing share of this nationalized wealth. On the one hand, the accumulative function of the first class would also appertain to the second ; on the other, the double *rôle* of worker and private or collective possessor of a small capital would attach to an ever-increasing number of workers.

Doubtless, all this is far from the wave of the fairy wand which is to transform the present *régime* into an ideal society within the space of a second, or from the Marxist catastrophic upheaval establishing at once the collectivist *régime*. Granted that the method of progressive and evolutionary revolution is desirable, the proposed reform of the right of property belongs to this method and cannot fail to prepare, and even to assure, the reforms which Socialism has long advocated.

But can this be achieved by a single reform measure such as I have outlined ? This is what

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Professor Mondolfo questions when he expresses the opinion that the two problems of present-day economic reconstruction and of the transformation of the present *régime* to a more democratic one cannot be united in one and the same solution.

The contrary seems to be nearer the truth, precisely because the social relationships that would result from a step in the direction of greater justice by an opportune modification of property rights—provided it be realized without upheavals which might injure the delicate mechanism of production—could not fail to inspire more intensive production, and consequently to aid in meeting the present crisis.

In all honesty, I cannot picture the paralysing effects which some critics fear the proposed reform would inevitably have upon certain great enterprises intended to minister to the most vital needs of to-day—great enterprises for the reclamation of agricultural land, large-scale hydro-electric projects, important irrigation undertakings, and the building of large manufacturing plants—great enterprises which will not yield immediate returns, but which do require immediate investments of capital on a large scale. These great enterprises cannot be undertaken by national Governments, already overburdened by the present demands upon them, nor by the co-operative associations powerless and lacking the necessary resources; they can be accomplished only through the agency of capitalist

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societies. Consequently, I do not see why a capitalist, whom the proposed reform would induce to make every possible economy, should be dissuaded from investing his new savings—on which, we must not forget, the nation would make no levies—in the large-scale enterprises in question, just as well as in any other type of investment.

Our social transformation would take place under the most favourable conditions. Thanks to the proposed reform, the nationalization of capital, while beginning immediately, would nevertheless be fully realized only over a not too short period of time. During this period the problems and practical difficulties of the administration of the first increments of the nationalized properties would present themselves, and their solution be accomplished. This, far from being a disadvantage, as some Socialists assert,⁴ would rather be a distinct advantage, for it would give the new administrative organs, charged with the management of these properties, the time necessary to develop themselves and to perfect themselves little by little under the spur of the very function they would have to fill—a function modest at first but always growing in importance.

It seems to me that in the preceding rapid summary of the principal criticisms directed against my proposal and the replies to them, I have

⁴ Griziotti, *loc. cit.*

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furnished the reader with all the necessary elements to construct his own critique of the value of the reform I recommend. Before proceeding to a consideration of the embodiment of the proposed reform in legal terminology, I desire to present to my readers the elements of a controversy which I have had with M. Yves Guyot, wherein will be found a condensed expression of the conflicting viewpoints of orthodox economic theory and this social reform.

CHAPTER IV

My Controversy with Yves Guyot

A NUMBER of economists and politicians have interested themselves in my project for transforming property rights through a modification of the right of inheritance. If this project has been received with favour in Liberal and Socialist circles, it was inevitable that it should bring upon itself the denunciation of one of the most tenacious and clear-thinking supporters of strict economic orthodoxy—M. Yves Guyot.

On April 16, 1920, M. Guyot wrote to me as follows :—

“ I cannot endorse your project, aiming as it does at the confiscation of all property received through inheritance. To differentiate tax levies upon inheritance existing at present will not be an easy matter, for most of these have undergone many transformations, whether of gain or of loss. Would you have all properties mortgaged in the future ? You would thereby destroy an important type of credit which is one of the most useful forms of liquidating landed property. You wish to

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broaden the domain of the nation. But does not the manner in which all States managed the interests confided to them during the last five years constitute a decisive proof that public bodies are incapable of carrying on economic undertakings? They have confirmed Adam Smith's proposition : ' Nations are not ruined by the wastefulness of individuals but by the wastefulness of Governments.' I add, ' Governments can procure resources only through the initiative, the labour and the saving of individuals.' ”

To this criticism I replied by the following letter of May 8, 1920 :

“ I understand perfectly that you cannot approve of my reform which is so essentially Socialistic, but permit me to observe :

1. There is no question of a confiscation of property in the sense ordinarily attributed to this word, but of a modification of property rights to be introduced into Congress or Parliament when the legislative majority shall be of Socialist or of Radical or Liberal sympathies.

2. There will be no difficulty in the differentiation of levies. All individual estates existing at the moment of the promulgation of the law, such as they appear in the census to be taken for this very purpose, will be considered as resulting, for example, one-third from the labour and thrift of the possessor

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and two-thirds as inherited by him through a single transfer of property. Upon the death of this owner, 50 per cent. of these two-thirds, or more briefly one-third of the total estate as it appeared in the census, would be inherited by the nation, and the other two-thirds, plus what the deceased may have added to the estate after the census, would go to the individual heirs as designated by the testator. Thereafter there would be little difficulty about the composition of the successive inheritances, each of which would consist of one share which had undergone two transfers of private possession (the nation would inherit 100 per cent. of this portion), one share which had undergone a single transfer (of which the nation would inherit 50 per cent.), and one share which had undergone none (on which the nation would levy no more than the present tax).

3. The inheritance claim of the nation upon estates would not be equivalent to a mortgage. The heir would be free to dispose of his estate in part or in whole. The nation would intervene as legal co-heir only at the death of this heir, as would the other beneficiaries, to determine what share represented the estate originally inherited, and what as a consequence would be its share of the inheritance.

4. I have no desire to broaden the economic activity of the nation. The bond issues of the public debt would be destroyed. The lands, as soon as they came into the possession of the nation, would

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be entrusted to the localities, which would transfer them on long-term leases to farmers, united in agricultural associations for co-operative buying and selling and for the production of specialized farm commodities. The administration of dwellings would be confided to the cities, which in turn might transfer them to trust companies which would pay the net revenue from them to the cities, and these would transfer a part of this revenue to the nation. The securities of each corporation would be handed over to the trade union belonging to the respective branch of industry, thus uniting the advantages of co-operation to those of large-scale industry. At the same time, all these revenues accruing to the nation, the provinces and the cities, would render possible *the gradual abolition of all taxes*, a consummation which would represent the supreme aspiration of orthodox political economy.

5. Finally, as to the sentence which you add to that of Adam Smith—‘Governments can procure resources only through the initiative, the labour and the thrift of individuals’—I accept this sentence, but I amend it as follows : ‘Governments can obtain the capital necessary to guarantee the emancipation of the working classes and to make the abolition of taxes possible, only through the initiative, the labour and the thrift of individuals.’”

PART III

TOWARD A PRACTICAL REALIZATION OF THIS
PROGRAMME

CHAPTER I

A Maximum Project

[NOTE—

In the Italian and French editions of this work, Signor Rignano outlined an inheritance tax law intended to modify the appropriate articles of the civil codes of those countries so as to encompass the substance of his reform. The original form of this proposed law would be distinctly alien to American legal tradition and constitutional procedure. Therefore Dr. Shultz, the translator, revised and adapted the author's proposed law so as to bring it more into harmony with the legal concepts of the United States. In what follows I have kept as closely to the underlying conceptions as expressed in the French text, with due regard to the American text, as British ideas demand.]

J. C. STAMP.

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OUTLINE OF ESTATE DUTY LAW

SECTION I

Transfers to be Taxed

Art. 1. *Tax on Transfer of Property.*—A tax shall be and is hereby imposed upon any transfer by a citizen of this nation of any real property within Great Britain and Northern Ireland, of any tangible or intangible personal property, or interest therein, and by a foreigner of any real estate located within that territory, or any interest therein, to any person or persons, in trust or otherwise, in the following cases :

Art. 2. *Under Will.*—When the transfer is under a testamentary disposition.

Art. 3. *Gifts inter vivos.*—When the transfer is of personal property made by a citizen, or of real estate located within the defined territory made by any person whether a citizen or an alien, by deed, grant, bargain, sale or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death. Every transfer made within five years prior to the death of the grantor, vendor,

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or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed to have been made as gifts *inter vivos* within the meaning of this section.

Art. 4. *Contracts in Contemplation of Death.*—Provisions in the existing law for dealing with debts due by the estate, and for joint interests, shall apply equally to valuations of estates for the future *provided* that life interests shall only be valued at less than the full unfettered rights in the property in the following conditions : [Here must follow highly technical provisions for dealing with such questions.]

Art. 5. In the case of intestacy, the property reverts entirely to the State if there are no kindred of the deceased within the degrees of affinity shown in Schedule A. (These would have to be defined.)

SECTION 2

Rate of Taxation

Art. 1. *Exemption of Charitable, Educational and Religious Institutions.*

Art. 2. *Classification of Rates upon Transfers of Property as above Defined.*—The tax upon transfers of property as above defined shall be at the following rates :

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Class A. No other tax than as provided below in Art. 5 shall be levied under this Act upon the transfer of that portion of the estate of the deceased clearly and indisputably accumulated by the deceased or by his labour, or his saving, or by both combined. This portion shall be calculated exclusively as the net total of the estate of the deceased after deducting the total value of all properties devolving upon the deceased by inheritance, deed, grant, or gift ; no other evidence shall be admitted relative to the value of that portion of the estate of the deceased accumulated by the deceased, or by his labour or by his thrift, or by both combined.

Class B. Upon the transfer of that portion of the estate of the deceased devolving upon him through inheritance, deed, grant or gift, not otherwise specified in *Class C*, the tax shall be 50 per cent.

Class C. Upon the transfer of that portion of the estate of the deceased devolving upon him through inheritance, deed, grant, or gift, where the testator, grantor or donor originally received such properties by inheritance, deed, grant or gift, the tax shall be 99·9 per cent.

Class D. In the case that the estate of the deceased or any portion thereof was acquired by the deceased through inheritance, deed, grant or gift at a period of less than one, two, three, or four years respectively before the death of the deceased,

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the rates of the tax upon the estate or such portion of the State as provided in *Class B* and *Class C* shall be diminished by 80 per cent., 60 per cent., 40 per cent., or 20 per cent. respectively of the same rates.

Class E. In the case that the total value of the estate of the deceased is less than the total value of properties devolving upon the deceased through inheritance, deed, grant or gift as provided in *Class B*, the tax upon the transfer of this property as provided in *Class B* shall be calculated upon the total value of the estate at the death of the deceased. In the case that the total value of the estate of the deceased is less than the combined total value of properties devolving upon the deceased through inheritance, deed, grant or gift as provided in *Class B* and in *Class C*, the tax upon the transfer of that portion of the estate of the deceased as provided in *Class C* shall first be calculated, and the tax upon the transfer of the remainder of the estate of the deceased shall then be calculated according to the provisions of *Class B*.

Class F. There shall be no tax upon any transfer of property under £500.

Art. 3. *Calculation.*—But no transfer of property or any interest therein by the deceased to wife or husband shall be taxed under the provisions of Art. 2, nor shall any devolution of property upon the deceased through inheritance, deed, grant or gift

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from husband or wife be deemed a transfer of property under the provisions of *Class B* and *Class C* of Art. 2.

Art. 4. *Remittance of Tax on Transfers to Minor Beneficiaries of the Deceased.*—In the case that any beneficiaries of the deceased be children of the deceased, and under age, the Commissioners of Inland Revenue shall collect all taxes upon the transfer of the estate of the deceased as provided in Art. 2, but the National Property Commission shall remit to such minor beneficiaries simple interest upon the amount of such tax upon the transfer of their respective portions of the estate of the deceased until such time as such minor beneficiaries attain the age of twenty-one years.

Art. 5. *Classification of Beneficiaries' Rates.*—The tax upon transfers of property as defined in Section 1 shall be at the following rates in addition to the rates provided in Art. 2 :

(Here should follow a schedule of beneficiaries' rates, progressively graduated according to the size of the transfer and the degree of relationship of the beneficiary.)

Art. 6. *Liability of Executors.*

Art. 7. *Deductions.*

Art. 8. *Divesting.*

Art. 9. *Contingent Estates.*

Art. 10. *Valuation of Life Interests and Contingent Estates.*

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SECTION 3

Procedure

Art. 1. *Supervision of Tax Collection.*—The Commissioners of Inland Revenue shall have complete supervision of the enforcement of all provisions of Sections 1 and 2 of this Act and shall make all collections thereunder, and shall make rules and regulations for the proper administration thereof.

Art. 2. *Probate Court Reports and Duties.*

Art. 3. *Duty of Executor or Trustee to Report Real Estate Transfer.*

Art. 4. *Tax Assessment.*—All taxes imposed by this Act shall be assessed by the Commissioners of Inland Revenue upon the full and fair cash value of the property transferred at the rates hereinbefore set out, to be paid to the National Property Commission for the use of the nation.

Art. 5. *Records to be Kept by the Commissioners of Inland Revenue.*

SECTION 4

Appraisement, Etc.

SECTION 5

Payment

Art. 1. *Forms.*

Art. 2. *Payment of Tax.*—It shall be optional

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with the beneficiaries of any transfer of property subject to tax under the provisions of this Act or with such executor or administrator or trustee as may be appointed to administer the estate of the deceased, to pay such taxes in cash or to surrender to the Commissioners of Inland Revenue the equivalent value in national or municipal stocks, or rural or urban lands and fixed properties, or corporate securities, or business interests, or like property, composing the estate of the deceased : *provided* that where the estate of the deceased comprises property of an indivisible character, the nation, through the agency of the National Property Commission, shall enter into co-partnership in the said property to the extent of the tax upon such property, and within one year the beneficiaries of the deceased may exercise the privilege of purchasing the interest of the nation in such property at a fair and just valuation, and in default of the exercise of such privilege on the part of the beneficiaries of the deceased, it shall be the right of the nation through the agency of the National Property Commission to purchase at a fair and just valuation the interests of the beneficiaries of the deceased in such property.

Art. 3. *Penalties for Delay.*

Art. 4. *Payment in Instalments.*

Art. 5. *Payment in Advance and Refund of Excess.*

Art. 6. *Tax on Real Estate of Foreigners.*

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SECTION 6

Enforcement

Art. 1. *Duties of Safe Deposit Companies, Trust Companies, Banks, Corporations, etc.*

Art. 2. *Penalties.*

SECTION 7

National Property Commission

Art. 1. *National Property Commission.*—A Commission is hereby created and established to be known as the National Property Commission which shall be composed of x commissioners who shall be appointed by His Majesty, by and with the advice of the Prime Minister.

Art. 2. *Powers.*—The Commission hereby created shall have authority to receive and administer taxes and properties as provided by Art. 4 of Section 3 of this Act.

Art. 3. *Government and Local Securities.*—The National Property Commission is hereby authorized to transfer all securities issued by the Government received under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 to the Treasury where the same shall be cancelled. All stocks of local authorities shall be held by the National Property Com-

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mission and the interest thereon shall be collected by the same for forty years (if they have so long a life) after which time they shall be returned to their respective local authorities for cancellation ; during twenty years after the receipt of such securities, the Commission shall return to the local authorities one-third of the interest upon the said securities, and two-thirds thereafter until such time as they are returned to the respective local authorities for cancellation : *provided* that any local authority may at any time redeem its securities when held by the Commission upon payment of their equitable value.

Art. 4. *Rural Lands and Fixed Properties*.—The National Property Commission shall delegate the direct administration of all rural lands and fixed properties received by it under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 to the respective counties wherein such rural lands and fixed properties are located : *provided* that such counties shall have created property committees for the direct administration of such lands and properties : *and further provided* that the said counties shall rent such lands and properties on long-term lease to the same farmers who had cultivated them up to the present, on condition that they unite with their neighbours into incorporated agricultural co-operative associations or at least into groups which would buy and sell co-operatively and into associations for the production of

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certain specialized farm commodities : *and further provided* that the said counties shall pay to the National Property Commission two-thirds of all revenues from such lands and properties, after deducting expenses of administration. The Commission shall always retain the right to revoke such delegation of administration in the event of maladministration.

Art. 5. *Urban Lands and Properties*.—The National Property Commission shall delegate the direct administration of all urban lands and fixed properties received by it under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 of this Act, to the respective municipalities and boroughs and urban district councils wherein such urban lands and fixed properties are located : *provided* that the said authorities shall have created statutory property committees for the direct administration of such lands and properties : *and further provided* that the said authorities shall rent such lands and properties on long-term lease : *and further provided* that the said authorities shall pay to the National Property Commission two-thirds of all revenues from such lands and properties, after deducting expenses of administration. The Commission shall always retain the right to revoke such delegation of administration in the event of maladministration.

Art. 6. *Corporate Securities*.—The National Property Commission shall transfer title to all stocks

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and shares in limited companies received by it under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 to such trade unions as have members in the employ of the said companies : *provided* that the said trade unions shall pay to the National Property Commission two-thirds of all interest and dividends on such stocks and shares : *and further provided* that two-thirds of the remaining interest and dividends shall be expended by the said trade unions for the purchase of additional securities of such corporations, or else be added to such funds as are designated by the said trade unions as insurance against unemployment, illness, disability, and death. The Commission shall always retain the right to enforce the return of such stocks and shares in the event of maladministration of such funds.

Art. 7. *Cash Funds*.—The National Property Commission shall transfer all monetary payments received by it under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 of this Act to the capital fund of the Farm and Labour Loan Association in return for equivalent par value of the capital stock of such Farm and Labour Loan Association, which capital stock shall be held by the Commission in perpetuity : *provided* that one-third of all dividends on such capital stock shall be transferred to the surplus fund of the Farm and Labour Loan Association.

Art. 8. *Other Properties*.—The National Pro-

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perty Commission shall administer directly all other properties received by it under the provisions of Art. 4 of Section 3 and Art. 2 of Section 5 of this Act.

Art. 9. *Disposition of Revenues.*—The National Property Commission shall pay all revenues received by it under the provisions of Arts. 3, 4, 5, 6, 7 and 8 of this Section, less expenses of administration, to the Treasury for the use of the nation.

SECTION 8

Transitory Provisions

Art. 1. *Classification of Present Estates.*—All estates at the time this Act shall take effect shall be considered as resulting one-third from the labour or thrift or both combined of the present proprietor, and two-thirds from inheritance by a single transfer.

Art. 2. *Census of Estates.*—A census of all estates at the present moment is hereby authorized to be undertaken by the Commissioners of Inland Revenue

CHAPTER II ¹

A Minimum Programme

IN the present stage of political and fiscal development in the United States and England, the special death duty law outlined in the preceding chapter is hardly likely to gain legislative consideration. It can hope for legal embodiment only when labour and agrarian parties of distinctly radical tendencies have undisputed majorities in Congress and in Parliament. And in the United States, at least, this is hardly an eventuality of the near future.

Under the circumstances, "All or nothing" as a battle-cry would represent the height of folly. Instead, the wiser course for those who are in sympathy with the doctrine underlying this project will be to modify and moderate it until some of its elements become capable of realization amid the bickering and compromising of democratic legislative procedure.

For the time being, the Socialistic elements of the project must be put aside as likely to offend the sensibilities of great numbers of Americans and

¹ Originally written by the translator and now adapted to British conditions.

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Englishmen who, however, will rally eagerly to the support of a fiscal measure, however radical, that gives promise of lightening onerous tax burdens in other directions, and that can be proved non-injurious to economic progress. It will not thereby sacrifice its reformative character, for the economic democratization that would result through even a moderate revision of the privilege of inheritance would be a notable step in the direction of greater social justice. It will draw its champions from the Liberals of the present-day parties, and familiarity with the social philosophy behind it may do much to convert them to a still broader view of social problems, and so pave the way for a fuller realization of a more radical programme in the future.

Our criterion of graduation in taxation according to the *relative age* of the portions of the inheritance can without difficulty be combined with the principles of graduation according to the relationship of the beneficiaries to the deceased and graduation according to the size of the beneficiaries' shares, as these principles are embodied in existing legislation.

The British Estate Duties introduced in the Finance Act, 1925, set the following rates, graduated, it will be noted, according to the size of the estate though not according to the relationship of the beneficiaries (see table on p. 128).

It will not be a difficult matter to modify these rates somewhat as follows. At the time of levying

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Principal Value of Estate.				Proposed Duty.
Exceeding		Not Exceeding		Rate per cent.
£		£		
100		500	. .	1
500		1,000	. .	2
1,000		5,000	. .	3
5,000		10,000	. .	4
10,000		12,500	. .	5
12,500		15,000	. .	6
15,000		18,000	. .	7
18,000		21,000	. .	8
21,000		25,000	. .	9
25,000		30,000	. .	10
30,000		35,000	. .	11
35,000		40,000	. .	12
40,000		45,000	. .	13
45,000		50,000	. .	14
50,000		55,000	. .	15
55,000		65,000	. .	16
65,000		75,000	. .	17
75,000		85,000	. .	18
85,000		100,000	. .	19
100,000		120,000	. .	20
120,000		140,000	. .	21
140,000		170,000	. .	22
170,000		200,000	. .	23
200,000		250,000	. .	24
250,000		325,000	. .	25
325,000		400,000	. .	26
400,000		500,000	. .	27
500,000		750,000	. .	28
750,000		1,000,000	. .	29
1,000,000		1,250,000	. .	30
1,250,000		1,500,000	. .	32
1,500,000		2,000,000	. .	35
2,000,000		. .	. .	40

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the estate tax, it shall be determined what proportion of the estate of the deceased resulted from his own labour and thrift and what share of his estate came to him through previous inheritance. Where the testator's estate was transmitted to him in its entirety, the tax, after being estimated under the above rates, would be increased two-fold. Thus, ordinarily the Death Duties on an estate of £2,000,000 would total a little over 40 per cent. If this estate had been inherited by the deceased *in toto*, it would be taxed at 80 per cent.

This would be an extreme case. Whatever proportion of the estate had resulted from the abilities of the deceased, would correspondingly reduce this doubling of the tax. If an estate of £200,000 had been one-half inherited and one-half earned, the rate would be half as much again instead of doubled. If the whole scale were lowered for ordinary application, the multiplier used would be higher.

This suggestion is by no means rigid. This criterion of graduation according to the proportion of the estate which had been inherited by the deceased might be applied under a number of different forms. They would not lead to a gradual nationalization of all the means of production, as has been advocated in the earlier chapters of this book ; but there would be two beneficial effects. In the first place, they would familiarize law-makers and students of fiscal polity and the public with this

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criterion of graduation, so that at a more auspicious time in the future it might be applied to its fullest extent. And secondly, slight as would be the social reform value of such a measure apart from its fiscal significance, this would not be negligible.

By such a reform, we should be committing ourselves to the practical opportunist programme of shifting some of the present tax burden from incomes and indirect levies to inheritances, on the principle that this programme would represent a closer approach to the ideal of social justice than the other. Although these rates are certainly not confiscatory, they are nevertheless subject to a serious criticism, one that we have not so far discussed, but which ought to be considered before closing this study.

Taxes upon incomes and custom duties are intended to fall only upon the current income of the nation ; fiscal economists insist that inheritance taxes absorb its capital wealth. They argue that if the burden of taxation be shifted to estates, the economic foundations of our industrial society will be weakened.

This argument is telling. It has been used to good effect in checking serious attempts at Death Duties in the past. As we shall see, however, it makes unwarranted assumptions.

We grant that Government expenditure at the present time is for the most part destructive—that is to say, the wealth obtained through taxation is consumed for ultimate utilities instead of being

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utilized for the creation of future wealth. It is argued, not without reason, that when the nation appropriates through Death Duties wealth that represented capital invested in production and consumes it for the support of armies and in payment of debts incurred to maintain these armies, it squanders the national capital.

To take the second case first, a moment's consideration will show that the paying off of a debenture releases just so much wealth which the former debenture-holder may now reinvest in individual production. Therefore, no matter how heavy Death Duties might be, to the extent that the revenue from it was utilized to liquidate the national indebtedness, it would not be destroying capital, but only transferring the title to it. At the same time, the nation would be released from further interest payments—certainly a *desideratum*.

But there is a fallacy lurking in the whole argument that Death Duties, by causing the Government to consume wealth that previously had been rated as capital, thereby destroy a portion of the capital wealth of the nation. It is not the certain number of pounds that the nation exacts by its death duties that previously produced shoes and ships and sealing wax ; it is the factories and machines that these pounds gave title to. After these pounds are taken by the nation, the factories and machines pass into other hands and they continue to produce as before.

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But, it is retorted, these heavy Death Duties will take the accumulated purchasing power from all other individuals who might possibly have bought these factories and machines, so that there will be none to purchase them, or at least there will be a serious economic disturbance. No ! for the amount of the Death Duties would be conditioned by the national expenditure, and every increase of the rate of Death Duties would have to correspond with an equivalent decrease in the rate of income and other taxation, so that from the wealth thus released in these other quarters would come the sums to replace the monetary representation of capital wealth absorbed by the nation through the Death Duties.¹

There is still another attack that can be made on this point. It can be argued that the wealth absorbed by income and other present-day taxes is drawn from individual incomes ; it represents a self-denial on the part of the taxpayer, so that there is no diversion of the stream of wealth that builds up the capital fund of the nation. On the other hand, heavy Death Duties would absorb lump sums which had previously been considered capital, and no corresponding self-denial would be practised by the heirs who found their inheritances diminished, since they would tend to look upon inherited

¹ For a further examination of the fallacious idea that expenditure of Death Duty revenue on non-capital objects by the State necessarily encroaches on the national capital, see *Fundamental Principles of Taxation*, Ch. 5, by Sir Josiah Stamp.

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wealth as a windfall. The Government would use this wealth in consumption ; no one would be induced to practise self-denial, so that the increase of the capital fund would be checked and possibly inroads would be made upon it.

There is a strong element of truth in this argument, but there is much exaggeration. Possibly the capital fund would not be increased as rapidly as it is to-day—this would not be an unmixed evil—but all increase would not be checked, since the remission of other taxes would relieve industry of a great burden, and would also result in saving and accumulation by a great many individuals who to-day find themselves unable to do so because of tax burdens.

Thus over against the dangers of Death Duties, there would be compensating benefits. Economic degeneration through destruction of the capital fund would not occur ; instead, the fund would be built up—not so rapidly, perhaps, as at present—by the small contributions of a great many people instead of by the huge fortunes of relatively few individuals—and surely this wide dissemination of title to the capital fund would be a closer approach to social justice than our present system. Moreover, so long as the tax demands of the Government are moderate, these dangers hardly exist ; they would only become imminent when inheritance tax rates became confiscatory. There could be no reasons for making the rates confiscatory unless the Government planned to

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enter upon a programme of nationalization as outlined in the preceding chapters : under these conditions the capital fund would be preserved not only by individual contributors but to a large extent by the Government itself.

There is, in addition, the important argument which has been emphasized again and again in the preceding pages, and which with poetical justice is borrowed from the most virulent denouncers of inheritance taxation. Man, they thunder, has a family sense, and if he be deprived of the opportunity of transmitting his wealth by inheritance, he will have no incentive to accumulate. But if the basis of our heavier rates is the element of progression according to the *relative age* of the various shares of the inheritance, we harness this family sense, and so provide a greater incentive than ever for accumulation—surely enough to overbalance some of the possible results of heavy inheritance taxation noted above.

To ask present-day Liberal opinion in America and England to support the maximum programme as outlined in the preceding chapter, would overshoot the mark. It was presented as a goal, as an ideal to strive for, though it be not immediately attainable. But surely the minimum project of this chapter can be championed not only by Socialists and the Labour Party, but by the left wing groups of the older parties in both countries.

APPENDICES

APPENDIX I

A Letter of M. Emile Vandervelde

I consider it *à propos*, as further support for my thesis, to publish the following letter of M. Vandervelde to M. Theunis, president of the Council of Ministers of Belgium, which was published in the *Bruxelles Peuple* on November 2-3, 1921. In it the great Belgian leader appeals to all the progressive democratic parties to meet the present financial situation with its otherwise insoluble problems, in which all the ex-belligerent countries find themselves, by my reform.

Open Letter to M. Theunis

MY DEAR MINISTER,

You owe thirty-four billions ! (francs).

Your four hundred millions of new taxes will certainly not suffice to balance the next budget.

You are too well-informed and have too much sense to count on the 20 per cent. economies of M. Maurice Despret, or to content yourself like M. Van Hoegaerden with saying, " The Boches will pay."

Also, I imagine that you are already looking forward to future taxes, and to obtain money you would

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not recoil from extreme measures, even though they were tainted with Socialism.

Among other such ideas, are you acquainted with the fiscal theories of the Italian economist Eugenio Rignano ?

Rignano is not a Marxist, far from it. He even begins by launching a tirade against what he calls the mechanistic economic fatalism of Marx. He calls himself a Liberal as well as a Socialist, but his Liberalism is hardly that of M. Strauss or of M. Digneffe.

You may judge by a passage from his article which I am taking the liberty to point out to you.

“ . . . when a social class, hitherto insignificant as a social factor, increases in power until it becomes a preponderant political element, this class may, once lifted into power or at least sharing in its exercise, modify legal privileges—and particularly the right of property—through legislative means so as to conform with its legitimate and clearly understood interests, and these modifications, imposed by it upon the other classes, can effectively change the course of economic development in its favour.

“ Now, this preponderance of the working classes as a political factor over all the classes and sub-classes of the bourgeoisie grouped together, is an accomplished fact or upon the verge of accomplishment, in all countries.”

Doubtless, my dear Minister, you will tell me that

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these affirmations, these assertions, are of a political character and that they have little interest for you as the Belgian Minister of Finance.

We shall soon see.

As to the final goal, the " Liberal Socialist " Rignano desires the same as we do—" the gradual socialization of private property " (as an impenitent Marxist, I would prefer to say " of the means of production ").

But his suggestion for the attainment of this appears to me to be of real interest from your point of view.

To be more to the point, what Prof. Rignano desires is to give the nation the right of co-inheritance in all estates of any importance. He ignores the principle of graduation as it relates to the size of the estate or the degree of relationship. More significantly—and herein lies the originality of his scheme—he intends to apply the principle of graduation to the *relative age* of the parts of the estate.

Thus, for example, upon that share of the estate resultant from the labour and saving of the owner, the nation would levy only the ordinary inheritance tax. It would make a much heavier levy—50 per cent. for example—on the share which the decedent had inherited from his father and which was derived from the latter's labour and thrift. It would receive a still larger quota—possibly even 100 per cent.—of

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all shares which had already undergone two transfers of possession.

I confine myself to indicating his main idea, and am sending you the article itself for closer study.

It goes without saying that if the system were put into complete practice, there could be no question of insisting upon the payment of the estate tax in specie :

“ The nation, co-heir to the extent of 50 per cent. to that portion of the estate having undergone *one* transfer through inheritance, and to the extent of 100 per cent. to those portions having already been subject to *two or more* transfers of possession, would receive its revenue in kind—in lands, in fixed property, in bonds of the public indebtedness, in corporate securities, etc. The bonds of the public indebtedness of the nation, the States or the municipalities, would be cancelled as rapidly as they passed into the possession of the nation. This gradual amortization of the public indebtedness would free the nation, the States and the municipalities little by little from the enormous burden of interest payments which constitute a leaden weight upon all truly productive economic activities.”

I have not the slightest doubt, my dear Minister, that this last suggestion alone will cause you to breathe more easily.

But I also foresee the objections and the questions you will raise.

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How would the nation administer the heterogeneous property that would come into its possession ?

If this reform were effected in only one country, what would there be to prevent an emigration of those fortunes menaced by these levies ?

How would the resistance of the property-holding castes to this sort of capital levy be overcome ?

In answer to the first query, I refer you to M. Rignano, who has written most significantly on this subject.

For the second, surely you must perceive that the ingenious formula of the Italian economist is applicable in more moderate doses—more in harmony with the present-day inheritance tax rates.

As for the third, you ought to be well aware that the working classes do not expect a general expropriation of ancestral estates by a Segers-Strauss or a Devize-Wauwerman Government.

But to govern is to foresee.

The time is perhaps not far distant when the Minister of Finance will have to think of something more than imposts on business codes and taxes on moving pictures and dancing. In fiscal matters as in military science, the worst thing an administration can do is to shut its eyes to new formulas and to continue passively in old ruts until one day it finds itself faced with a hostile parliamentary majority intent upon radical action.

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insurance, the development of inheritance taxation along new lines—these are problems which must be studied *from now on*.

I know well your open-mindedness and your foresight, my dear Minister, and I feel certain that you will not neglect these matters.

Cordially yours,

EMILE VANDERVELDE.

APPENDIX II

NEW MEANS FOR THE MORE RAPID EXTINCTION OF THE BRITISH NATIONAL DEBT ¹

GREAT BRITAIN is perhaps the only great European nation that has faced the problem of reducing the heavy burden of the National Debt left as a sad heritage by the war. When the war was over she resumed her traditional policy of amortizing the debt, which had been suspended during the war. And so the National Debt, which on March 31, 1920, amounted to £7,856,600,000, on March 31, 1924, was reduced to £7,680,400,000. It appears to be reduced by about £176,000,000 ; but it has been observed that in reality the reduction in the period from 1920 till the present has been more notable, taking due account of the increase of the nominal value of the debt as the effect of the Conversion Loan at 3½ per cent. And the Chancellor of the Exchequer, Mr. Snowden, in his speech in the House of Commons on April 29, 1924, calculated the reduction of the internal debt, from December 1919, at about £400,000,000 sterling, and the reduction of the total debt, external and internal, at more than £650,000,000.

¹ By Francisci Gerbino. From *The Economic Journal*, June, 1925.

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To the reduction of the debt, as is well known, is devoted the national surplus revenue, which amounted in 1920-21 to £230,000,000, in 1921-22 to £45,000,000, in 1922-23 to £101,000,000, in 1923-24 to £48,000,000. It may be pointed out, also, that there is a tendency in English financial policy to devote a diminishing portion of the surplus to the reduction of the debt.¹ In the financial year 1922-23 Mr. Baldwin departed from the rule of devoting the entire surplus revenue to this purpose ; as he used 36 of the surplus 101 millions for the reduction of taxes, and only the difference of 65 millions for the reduction of the debt, and also fixed the plan of amortization for 1923-24 at 45 millions. And it has been pointed out that if the Chancellor of the Exchequer, Mr. Snowden, had accepted fully this figure for amortization and devoted to it the entire surplus realised, he would not have had anything left to use for the reduction of taxation.

It is maintained by many in England that the dedication of the surplus revenue to the extinction of the National Debt is a financial canon well applied in normal times, but not practicable in times of industrial depression, and that it is applicable in its entirety when the surplus is from 1 to 15 millions, and not when it passes this limit and reaches 40 or 100. The entire dedication of surplus revenue to

¹ Surplus goes, of course, automatically to reduce debt in the year. The writer confuses this with tax reductions for subsequent years.—
J. C. S.

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the extinction of the debt is opposed in England by the industrial and commercial classes, who maintained that it is a better system to relieve taxation in a liberal and measured way, for the purpose of giving liberty of movement to business undertakings, providing for the payment of the debt by the maintenance of a limited Sinking Fund, which is all that can be asked from the nation in so difficult a time as the present.

It is maintained by many, on the other hand, that the Sinking Fund system constitutes under present conditions a remedy quite inadequate to the evil represented by the enormous burden of the public debt. On a National Debt of the present dimensions, it is observed, a small Sinking Fund exercises practically no effect, while a large Sinking Fund would necessarily require a large increase in the yearly taxation. And besides, even a relatively large Sinking Fund would effect a comparatively small relief in the burden of the next twenty years. To reduce the interest by five millions a year it would be necessary to institute a Sinking Fund of a hundred millions a year, which would result in an increase, for example, on income tax of from five shillings to seven shillings in the pound, without any immediate prospect of bringing it back to the present level.¹

Many, therefore, in England have demanded as a

¹ Cf. H. Dalton, *The Capital Levy Explained*, p. 16, London, 1923. The author means a progressive reduction of five millions a year.

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much more effectual means of reducing, if not extinguishing, the war debt, a *levy on capital*. The capital levy was, it may be said, the electoral platform of the Labour Party in the General Election in November 1922, and in the following one, which brought this party into power.

The Labour Party advocated the capital levy for the purpose of paying rapidly, by a special effort adequate to the present critical circumstances, a large proportion of the war debt, so as to permit of a permanent reduction of annual taxation and a permanent raising of the level of means of living.¹ But the capital levy has encountered strong opposition in England, and the Labour Party, during the time they were in power, could not carry out their new scheme of taxation, which was an essential part of their programme, as they had not sufficient Parliamentary strength. So they confined themselves to the appointment of a Commission of Inquiry, formed by thirteen competent members, to ascertain the state of the public debt and the incidence of the taxation. This commission was to fulfil the task of making the inquiries necessary for the preparation of the new means proposed for the extinction of the war debt.

In the meantime, while awaiting the result of the labours of this Commission, there is still continued in England the ordinary system of devoting a part of the surplus revenue to the amortization of the debt—a

¹ Cf. H. Dalton, *The Capital Levy Explained*.

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system, to tell the truth, the efficacy of which must be admitted to be very limited. The amortization of 65 millions, as in the year 1922-23, or 45 millions as fixed for 1923-24, affects the reduction of the amount of the debt to the extent of less than 1 per cent., which appears almost *nil* as regards the reduction of the burden of taxation caused by the debt.

The system of utilising the surplus revenue for the reduction of the debt is therefore, by itself, of little effect, and does not secure regularity in the process of amortization.¹ On the other hand, it does not seem probable that the proposed *capital levy* will be effected soon, as it meets with strong opposition, perhaps not unfounded, in England. In such circumstances, in order to effect a more rapid reduction of the debt, which is desirable and indeed necessary in order to give freer scope to the national finances, and to reduce the heavy burden of taxes, while giving greater impulse to the public expenditure devoted to the increase of the general well-being, it seems preferable to adopt the system of the Sinking Fund increased by a special and adequate fund—a system which might supplement that of the surplus revenue, which is in itself insufficient and irregular.

Highly suited to reach this object would seem to

¹ In England, from 1829 to 1899, the amortization of the National Debt was suspended no less than twenty-nine times, and the surplus revenue was devoted to the reduction of taxation. Cf. my article: "Un nouveau principe d'impôt successoral pour amortir les dettes de guerre dans les pays ex-belligérants" (in *Scientia*, July, 1923).

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be the proposal of Rignano, applied to fiscal purposes. This aims at taxing more substantially, in the succession duties, the part of the inheritance which has come to the deceased from another inheritance, than the part resulting from his own labour and economy ; employing for the amortization of the public debt, as Rignano proposes, the product of the larger duty established with regard to the part of the estate of the deceased which has come to him by preceding inheritance.

Rignano's project is known to English readers, as explained to them by himself,¹ and it has been taken up by several competent writers, such as Stamp, Clay, and especially Dalton, who has also proposed a modification of it.²

It will be well, however, to state briefly the contents and ends of this project.

Rignano thinks that inheritance is the main cause of maintaining the division of society into the two opposite classes of holders of capital and workers without the implements indispensable for their work, and that this is contrary to nature, because, by placing individuals in initial different conditions in the struggle for life, it causes the survival, not of the

¹ See Rignano, "A Plea for a Greater Economic Democratization," in *Economic Journal*, September, 1919. (Republished in this volume as Chapter I. of Part I.)

² See Stamp, *Wealth and Taxable Capacity*; Clay, *Property and Inheritance*; Dalton, *The Inequality of Income*, *Principles of Public Finance*, and *The Capital Levy Explained*.

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fittest, but of those who are artificially less inured to conflict. He therefore considers it necessary to limit the rights of property and inheritance in such a way as to leave the production of goods and the accumulation of new capital to private enterprise, and rather increase the stimulus to economy ; but, on the other hand, to render possible the gradual passing over, through a continual automatic process, of certain goods and instruments of production, which are more than others adapted to be managed by public bodies, into the property of the State, without the need of recurring to violent revolutionary expropriation or to the system of indemnities.

For this purpose Rignano proposes to use the succession duty, applying to the principle of progression on a new basis, that is, according to the *number of transmissions*, by way of succession or donation, which the various portions of the estate have undergone before arriving at the deceased.

Rignano's proposal is that in every case of succession the estate of the deceased should be divided into three parts : that due to the work and savings of the deceased, on which the State should charge the present succession duty ; that part which has already been transmitted, on which the State, as co-heir, would charge a duty of 50 per cent. ; and finally that part which has been transmitted more than once, on which the State, as co-heir, should charge 100 per cent.

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By this system Rignano thinks there would be a greater stimulus to saving than on the present system of succession duty, as the heir would be encouraged to accumulate by the thought that all the sums he saved would go entire to his children (save what is due to the State for the ordinary succession duty), while what he has inherited will be half confiscated by the State if it has been transmitted once, and entirely if more than once. And he thinks that this may lead gradually to the actual nationalization of capital, in full compatibility with the economic *régime* founded on private property.

Rignano's proposal has been made the subject of numerous criticisms as regards its social aspect, that is, as aiming at the substantial modification of the rights of property. But, on the other hand, even by the severest critics it has been acknowledged to be capable of financial application.

Of this opinion is, for example, in Italy, Gini, who thinks that if the proposed reform be limited to a measure of a financial character, there is no good reason, after the first transmission, to treat in a different manner, according to the number of transmissions, the property taken gratuitously ; that is, he thinks that it should be enough to distinguish in the succession duty between the fruits of saving effected by the testator and what he has previously inherited.¹

Dalton also, like Gini, would like to limit Rig-

¹ Cf. Gini, in *Scientia*, August, 1921.

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nano's scheme to the differentiation between estate formed by the work and the savings of the deceased, and estate inherited by him.¹

Rignano in part agrees with his critics, as he owns that the complete fulfilment of his proposal presupposes the political preponderance of the proletariat, which has not yet been acquired, and he consequently presents, as capable of immediate application, what he calls a *minimum project*—that is, a project directed to financial purposes, which has not, therefore, the element of confiscation mentioned above, and confines itself to the differentiation between estate inherited by the deceased and that formed by his work and saving. Rignano recognizes that through this minimum project the complete nationalization of all private capital now existing could not be soon arrived at, but he thinks that there might be the beneficial effect of stimulating savings more than is done at present, owing to the combination of the principle of progressiveness in time with that of progressiveness according to the amount of the estate. And Rignano proposes that his reform, thus directed to fiscal purposes, should be applied especially to the extinction of national debts.

The *minimum project* of Rignano, as being a proposal of an exclusively financial character, escapes in great part the objections and criticisms put forward

¹ Cf. Dalton, *Inequality of Income*, Part IV. Chapter IX., x.; and *Public Finance*, p. 92.

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by many writers (including myself) against the maximum project. It is incontestable that the differentiation between wealth saved by the deceased and wealth inherited by him would constitute a greater incitement to saving than is the existing system of succession duty. Once the soundness of the principle of progressiveness in time, from the financial point of view, is recognized, and therefore the utility of its introduction into the financial systems, it will also appear advisable to devote the increased duty on the inherited part of estates to the extinction of the National Debt.

And once this principle is introduced into the system of British succession duty, the amortization of the debt would be notably accelerated, and there would be an end of the inconveniences presented by the slow, irregular and inefficient system of surplus revenue when it is adopted by itself ; while on the other hand the opposite inconveniences of capital levy would be avoided.

The application of the principle in the system of British succession taxing would not meet any very great difficulty, as it could easily be introduced into the estate duty, in which it would be co-ordinated with the principle of progressiveness according to the amount of the fortune transmitted by succession. At present the estate duty affects the entire inheritance before it is divided among the heirs, by a charge rising progressively from a minimum of 1 per cent.

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on fortunes above £100 but less than £500, to a maximum of 40 per cent. on fortunes above £2,000,000. If it were desired to introduce the principle proposed by Rignano, the distinction suggested might begin with inheritances exceeding £5,000. That is to say, the present rates of estate duty could be left in force as regards that part of the total estate acquired by the work and the economy of the deceased, while the remainder, which had come to the deceased by a preceding inheritance or donation, could be subjected to heavier charges, and for this part a more rapidly progressing scale might be adopted, distributing the value of the inherited estate into a more limited number of groups. The following scale, for example, might be adopted :—

Principal value of that part of the total inheritance which came to the deceased by preceding inheritance or donation.				Rate per cent.
Above	£5,000 but under	£15,000		15
„	15,000 „	20,000		20
„	20,000 „	30,000		25
„	30,000 „	60,000		30
„	60,000 „	90,000		35
„	90,000 „	130,000		40
„	130,000 „	180,000		45
„	180,000 „	250,000		50
„	250,000 „	400,000		55
„	400,000 „	600,000		60
„	600,000 „	1,000,000		65
„	1,000,000			75

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It is not easy to determine what this larger duty would produce, as it cannot be known what part of the fortunes transmitted by inheritance is a result of the labour and economy of the deceased and how much is derived from preceding inheritance. It is, however, incontestable that by means of these high rates a substantial revenue can be obtained, capable of effecting a more rapid extinction of the public debt. The rates proposed (which naturally are only given by way of suggestion) appear rather high, although not arriving at confiscation. But this severity—which would not be necessary in order to attain purely and simply the end of differentiating between wealth inherited by the deceased and wealth created by his labour and economy—becomes indispensable in order to arrive at the rapid extinction of the public debt.

In view of the end aimed at by this larger tax on the part of the estate that had been inherited by the deceased—that is to say, the extinction of the public debt—it would be preferable that the payment should be made in kind. In other words, this special inheritance tax should be paid by means of public debt bonds (valued at a price somewhat above current Stock Exchange price), which should be destroyed ; or through other securities—shares or debentures of industrial companies or other easily realisable securities. This principle has, in fact, been already in part accepted in English legislation :

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from 1919 the death duties can be paid in Victory Bonds ; a bond of £100, which was issued at £85, being accepted at par.

The payments made of this special succession duty upon the part of the total estate which had been inherited by the deceased should pass to the National Debt Commissioners, and when cash or cheques are received in payment, the amount of these should be invested in the War Loan or other forms of public debt, and the bonds destroyed ; when payment is made in War Loan or other bonds of the public debt, these should simply be destroyed. If, on the other hand, securities of a different character are paid in, the National Debt Commissioners should preserve and administer them for the purpose of selling them on the best possible terms, then investing the proceeds in the purchase of public debt bonds, which should be destroyed ; and until this sale is carried out, they should invest the interests or dividends on those private securities in the purchase and destruction of public debt bonds.

These functions of administering the proceeds of this special succession duty which should have the exclusive ultimate purpose of destroying public debt bonds, should be entrusted, if not to the National Debt Commissioners, to the trustees, who seem to constitute the organ already in existence which is best adapted to this purpose.

It would be desirable that this duty should be paid

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promptly, for the purpose of accelerating the extinction of the debt. In special cases, however, a brief deferment of payment might be permitted, the debtors being required to pay interest on the deferred payments, at a rate higher than that paid by the Government on the public debt bonds.

The proposal, therefore, seems perfectly applicable in England, where it would not lead to any serious practical difficulties : there it would not only be opportune at the present moment, when England is oppressed by the heavy burden of the National Debt, which is insufficiently and almost insensibly lightened by the system of the Sinking Fund, aided by the ordinary revenue surplus, but it would also be a very *practical* measure. There would be no need of creating new financial organisms or of introducing new systems of obtaining the necessary information, no need to find new taxable material ; all that is needed is to introduce into the existing system of succession duties the principle of progressiveness in time, limited to the differentiation, by means of diversity in the rate of charges, between wealth inherited and that saved by the deceased.

Nor should there be serious difficulty in effecting the distinction, which should be purely quantitative, between the two parts of estates transmitted by succession, as it will be sufficient to compare the inheritance received by the deceased with that transmitted by him at his death. The variation in

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value which property undergoes in the course of time could be duly taken account of by means of a system of index-numbers.

It cannot be doubted that the application of the Rignano project, even within the limits of a financial measure in accordance with the concrete suggestions I have given above, would bring in a large increase on the succession duties, and this would mean an increase in the pressure of taxation on the heirs. The question should therefore be considered whether—as some have objected—the effect of such increase would not be a hindrance rather than an incitement to saving.

The preliminary observation may be made that the application of this reform, which would have the effect of increasing succession duties, would be on the line of a tendency to such increase which has manifested itself in almost all countries, especially Anglo-Saxon countries. A contrast to this tendency is seen in the abolition, recently effected in Italy, of family succession duties. It may be noted, however, in this connection that this abolition has been considered very questionable even by those who advocated moderation in the duties, which had in Italy reached the point of confiscation ; and that in any case the reform has been justified by the proved fact that the succession duty in Italy affected almost exclusively real estate, while in great measure it did

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not affect personal wealth, especially securities payable to bearer ; for which reason it appeared, especially since the repeal of the law making it obligatory for securities to bear a name, an instrument of iniquitous taxation.

In any case, to determine the effects of the proposed reform on saving and on increase of production in England, it must be remembered that the increased taxation would be confined to the portions of estates transmitted by succession which had been inherited by the deceased, and so far as this would bring about a more rapid extinction of the National Debt it would probably result in the productive investment of that wealth which was formerly invested in public debt bonds and paid back by the Government to its creditors. . To be more exact, it should be said that if this larger succession duty is paid in public debt bonds, there would simply be an adjustment of accounts between the Government and the heirs possessing bonds ; and there would not be in consequence any displacement of wealth productively employed. But if this special succession duty is paid with money already invested productively, there would be a transfer of capital from the hands of the heirs paying it to those of possessors of public debt bonds : the productive investment of certain funds formerly effected by the heirs would thenceforth be effected by the possessors of the public debt bonds. That is to say, there would be a simple displacement

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of capital, from which, however, might arise differences in its productiveness. It has been, in fact, observed that success in production depends largely on the energy and ability of those who manage the business ; so that if the increased duty and the consequent extinction of the debt tended to transfer capital from those who are capable of investing it in the best way to those who are less capable, there would be a diminished production and an obstacle to saving.

As, however, by means of this special succession duty capital would be taken away at the time when the estate of the deceased would pass to the heir, and when, therefore, there would cease to be exercised the capacity and ability to which in great measure the success of the enterprise was owing, there is no special reason to suppose that the ability of the heirs who would succeed the deceased in the direction of the business would be greater than that of the holders of public debt bonds to whom the State would, by means of the amortization, transfer the capital formerly invested by the deceased, which would now in consequence be invested by them.

These considerations, moreover, regard only the capital that had been invested directly by the deceased—a case that cannot be called usual in modern business, especially in England. It has been clearly shown that one of the characteristic phenomena exhibited in the economics of the last century

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is the separation of the possession of capital from its use.¹ That is to say, as a rule capital is not invested by those to whom it belongs : proprietary right tends more and more to confine itself to claiming money payment in return for granting the use of capital to those who have aptitude for investing it ; thence the preponderance, especially in England, of Stock Exchange securities among the various forms of property. Business concerns, therefore, and especially joint-stock concerns, maintain their own existence independently of the deaths of shareholders ; and in consequence of this normal factor of economic life no diminution of productivity need be feared from the displacement of wealth determined by the higher succession duty imposed for the extinction of the National Debt. For in substance the whole matter would be reduced to this : the State would, by means of the succession duty, come into possession of securities and shares formerly belonging to certain proprietors who as shareholders had no part in the management of the concern, and would sell them to other persons who would become the new shareholders, and as such would in the same way have no part in the management ; providing by the proceeds of these sales for the payment of part of the National Debt. And at the end of this process there would probably be a productive

¹ See Clay, *Property and Inheritance*, London, The New Way Series.

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investment of wealth by the holders of the public debt bonds paid back by the State.

But for the purpose of determining the effects of the proposed reform on savings it has still to be remembered that, in consequence of the increased succession duty and the corresponding gradual extinction of the debt, there is a displacement or altered distribution of the burden of taxation. On the one hand there is a serious increase in the tax upon that part of inheritances which had been already inherited by the testators ; but on the other hand, in so far as the amortization determines a gradual reduction in the burden of interest, a lightening of other taxes is possible—those on incomes and on commodities.

It remains to be considered whether income-tax is a greater obstacle to saving and the increase of production than would be the duty on the part of inheritances derived from preceding inheritances. If we compare the ordinary succession duties (that is, those actually in operation in the various States, which affect equally the different parts of estates inherited whatever may be their origin) with the taxes on income from the point of view of their effect on production, it is maintained by many that the former are preferable. It is, in fact, affirmed that when the payment of a succession duty is not insured against beforehand, an income-tax and a succession duty of the ordinary type, which produce equally

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probably hinder saving to the same extent. But, on the other hand, considering the effects of the expectation of having to pay in future, it seems probable that saving is more reduced by the prospect of having to pay the income-tax year by year than by the more remote prospect of the succession duty having to be paid at an uncertain date.¹ To confirm this conclusion it is also to be observed that while the taxation of inheritances hardly disturbs the development of the economic activity of productive concerns, the taxation of income, by diminishing reserves, hinders their ulterior development.

With regard to the application of the proposal of Rignano, however, the charge on successions would be much larger than the relief that could be granted on income-tax, as a result of the gradual reduction of the interest on the public debt. But as regards the pressure of taxation a sound judgment will be favourable to the proposed taxation of successions. For on the one hand the special heavier taxation on wealth already inherited by the deceased, within purely fiscal limits, by determining the higher valuation of wealth saved than of that inherited, would produce an incitement and not a hindrance to saving ; and on the other hand there would be a further incitement to saving in the diminution of income-tax and taxes on commodities, which could be effected in consequence of the gradual liquidation

¹ See Dalton, *Public Finance*, p. 90.

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of the debt. Thus the application of the project of Rignano to the extinction of the debt would constitute a double incitement to save and to increase production : first, by the higher valuation of wealth saved than of that inherited ; and secondly, by diminishing the pressure of direct taxation.

These considerations highly recommend the project of Rignano to Great Britain at the present moment. It would enable that great nation to give a more decided impulse to the amortization of the National Debt. It is incontestably superior to the Sinking Fund system, helped out by the surplus revenue, which is strongly opposed by the classes of producers and consumers, who desire relief from fiscal burdens and contend for the benefit of surplus revenue ; and it is, on the other hand, more practical than the capital levy and presents a smaller sum of inconveniences than this, which also is opposed by English public opinion : these circumstances make it immediately applicable.

The National Debt constitutes to-day a very heavy burden even for the strong shoulders of Great Britain ; and its substantial alleviation, by utilizing for fiscal purposes the project of Rignano (that is, what he calls the *minimum project*), would ensure a progressively increasing advantage to English taxpayers and consumers. G. DE FRANCISCI GERBINO.

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